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# Resilience Re: Designing A Public-Private Response To Pandemic & Other Systemic Risks

**Webinar**

Thursday 29 July 2020





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# A Word From Our Chairman



**Professor Michael  
Mainelli**

Executive Chairman

Z/Yen Group

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# Agenda



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- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:30 Keynote Address
- 11:30 – 11:45 Questions & Answers



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**Resilience Re:  
Designing A Public-  
Private Response To  
Pandemic & Other  
Systemic Risks**



**Julian Enoizi**

Chief Executive Officer

Pool Re.



**Resilience Re: Designing a public-private response  
to pandemic and other systemic risks**

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Z/Yen Webinar

30 July 2020

# Contents

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*1. 27 years of building resilience to terrorism risk*

*2. Covid-19 and the UK Insurance Industry*

*3. Responses from the UK*

4. The broader role of public-private risk financing in the 2020s



27 years of building resilience to terrorism risk



# Pool Re grew out of a private market failure in providing terrorism cover



- Pool Re was established in 1993 as a **response to the market failure** with insurers and reinsurers withdrawing terrorism cover after the Provisional IRA's bombing campaign in the 1990s
- Pool Re was founded by the insurance industry in cooperation with, and backed by, a loan facility provided by HMT as an **industry mutual with a public policy objective**
- Pool Re exists to **correct market failure, protect the UK economy, and safeguard society and livelihoods from acts of terrorism.**
- **We offer a financial safety net for around £2.2 trillion of assets** and businesses of all sizes, from shopping centres and local traders to airports and power grids, across sectors of the economy such as real estate, retail, transport, construction and energy.



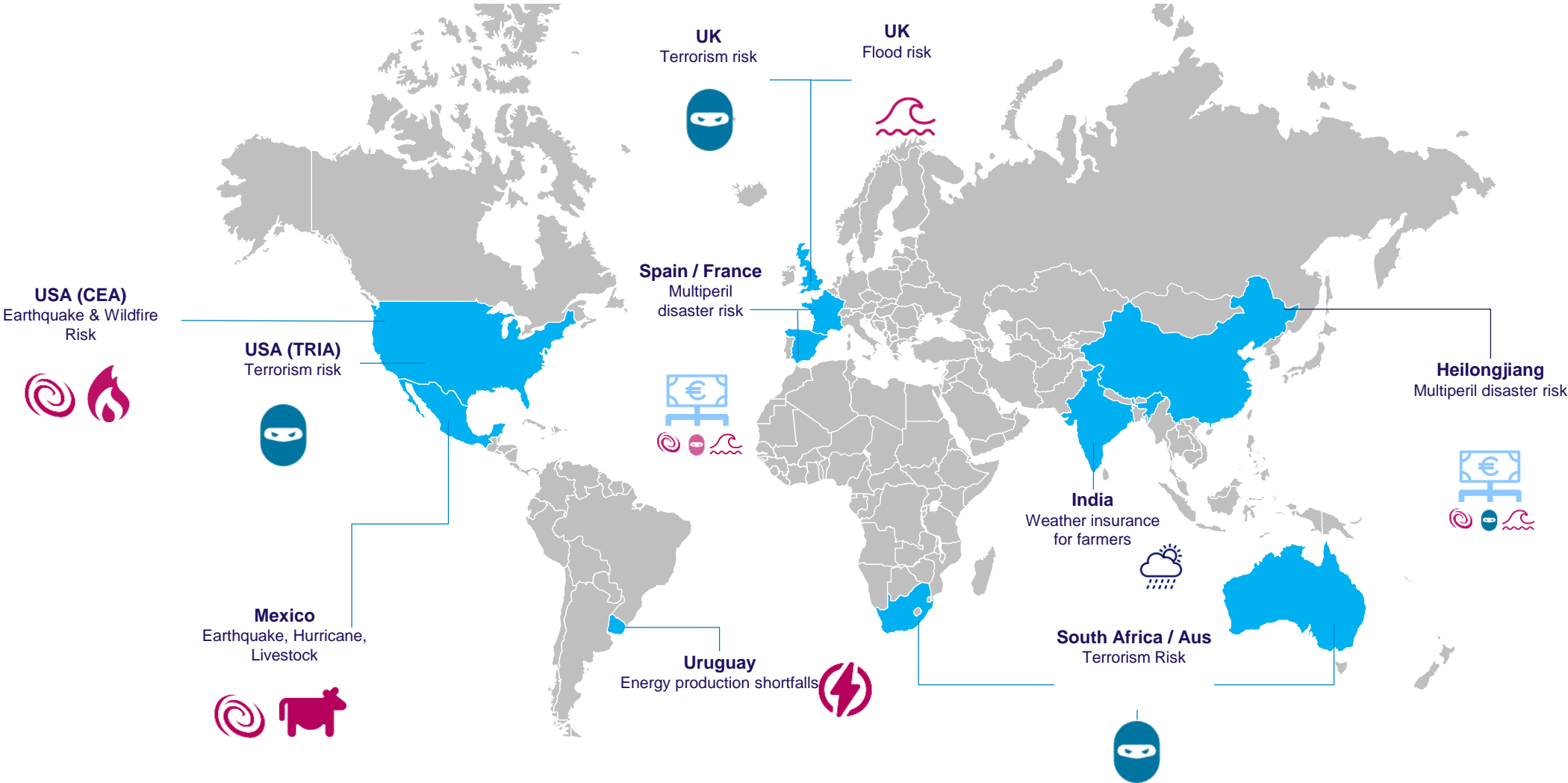
**Baltic Exchange bombing on 10 April 1992**



# Pool Re's terrorism resilience objectives

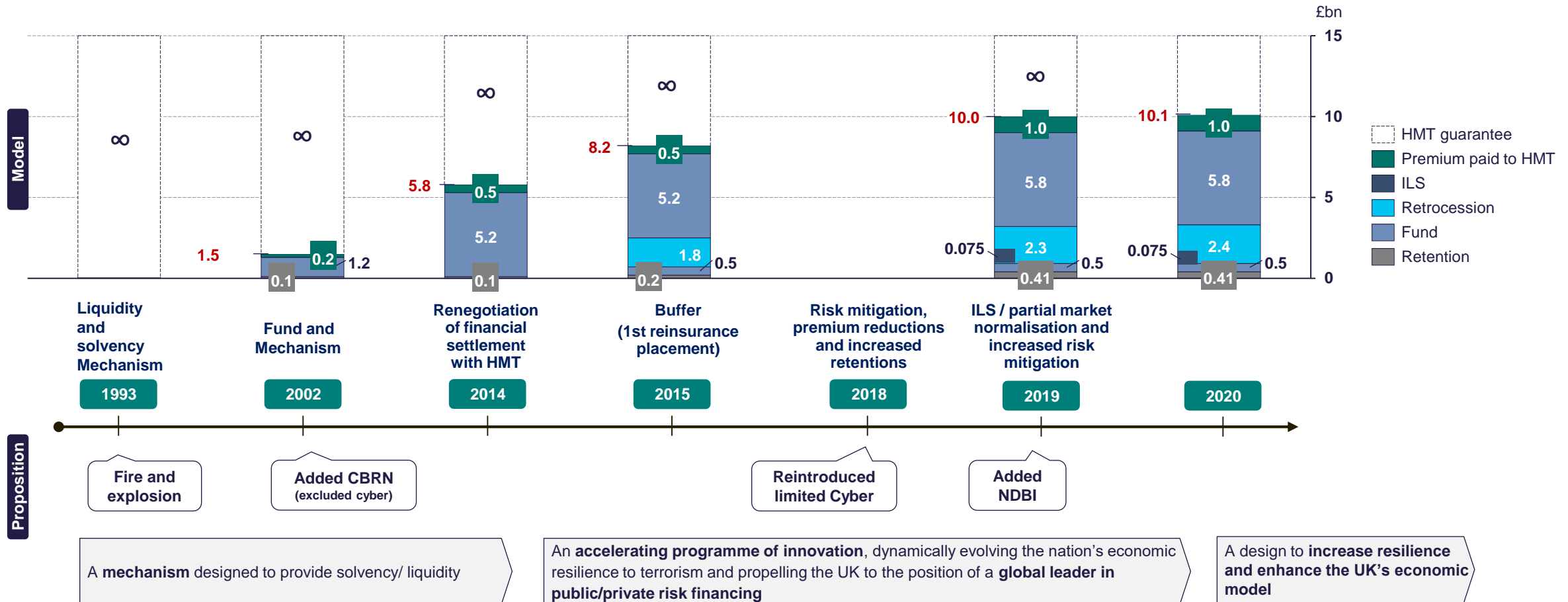
-  **Protect the UK economy** by stabilising the terrorism insurance market, providing solvency at the point of crisis and avoiding repeated market failure
-  **Enable its members to offer comprehensive, accessible and affordable cover** to UK Plc ensuring economic development
-  **Facilitate growth of the UK economy and continuing investment**, particularly in infrastructure, by virtue of the ability to purchase viable terrorism insurance
-  **Accelerate the transfer of risk from Government back to the private market** through its ecosystem of risk awareness, modelling and management
-  **Act as a conduit to ensure alignment of interests** between all stakeholders, including private and public parties
-  **Diversify capital sources** to increase future optionality and insulate the taxpayer from loss
-  **Identify future terrorism vectors and**, where there is market consensus, **evolve proposition to bridge protection gaps** arising from an evolving risk profile and avoid moral hazard
-  **Support national security strategy** by incentivising investment in cost-effective loss prevention measures

# Innovative Public/Private disaster management solutions sectors already exist in mature and developing economies, and are not limited to Terrorism





# We have adapted our model and proposition to reflect the changing terrorism landscape and re-engage commercial (re)insurers





# Today, Pool Re is a critical component of both the financial and government infrastructure

**£2.2tn**  
of liabilities insured  
by Pool Re



**Terrorism insurance**  
Large and small business

Fewer than **15%**  
of SMEs are  
estimated to have  
terrorism insurance

**90%**  
of the terrorism  
insurance market is  
estimated to be  
reinsured by Pool Re,  
the rest is kept in the  
private sector

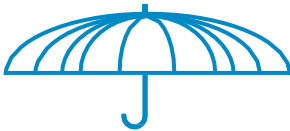


**(Re)Insurers**

**£2.4bn**  
of commercial  
retrocession  
purchased by Pool  
Re from private  
sector reinsurers

**£6.5bn**  
fund has been built up  
by Pool Re to meet  
potential claims

**£635m**  
has been paid out in  
claims, equivalent to  
£1.25bn adjusted for  
inflation



**Pool Re**

**£75m**  
raised from external  
investors through the  
placement of an insurance  
linked security bond



**Government guarantee**

**£990m**  
of premiums have been  
paid to HM Treasury,  
though Pool Re can draw  
on this amount should  
Government funds be  
required in the aftermath of  
a systemic loss

# Pool Re is also recognised by Government as a successful template for public-private collaboration in risk management



Home Office

## CONTEST

The United Kingdom's Strategy for Countering Terrorism

Our response to counter-terrorism is built on an approach that unites the public and private sectors...

The insurance industry has the potential to shape behaviour and improve safety, security and resilience...

[The Home Office] will seek a more integrated relationship with the private sector both to better protect our economic infrastructure and to scale our ability to tackle terrorism...

**Pool Re is an excellent example of a public-private partnership set up specifically to mitigate the financial impact of a terrorist attack**



HM Treasury

Government as insurer of last resort: Managing contingent liabilities in the public sector

By taking on the tail-end risk of a catastrophic event from the private sector, the government makes it possible for private insurers to re-enter the market.

Schemes like this are monitored for their effectiveness and can evolve over time.

**The Pool Re model has been successful in maximising the involvement of private insurance to enter the market**, creating several layers of defence before the guarantee is called. These include the retentions of commercial reinsurers who purchase insurance from Pool Re; excess of loss reinsurance purchased by Pool Re from other reinsurer's; as well as the fund accumulated by premiums paid to Pool Re. Quote this

These layers of defence have created a £10 billion buffer between an incident occurring and taxpayer money being called on.



“ This [passage of 2019 NDBI Legislation] demonstrates the Government's commitment to ensuring that businesses can continue to secure insurance against the financial costs of terror attacks, and that **Pool Re can maintain its position as an exemplar, world leading partnership between government and the insurance sector.** ”

– John Glen, Economic Secretary to the Treasury, 2019



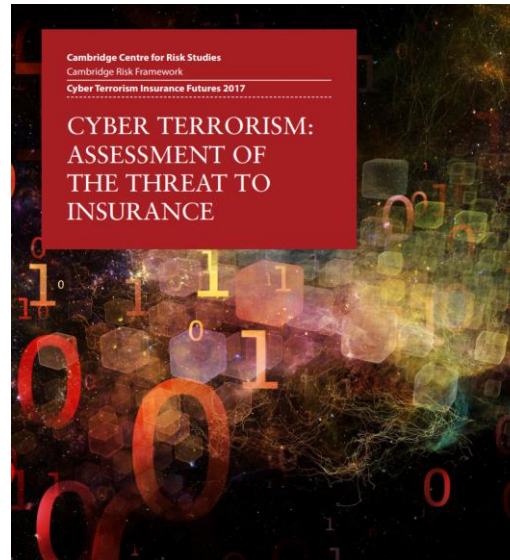
# How Pool Re has Evolved with the Threat



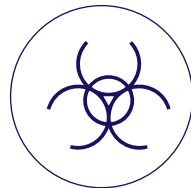
Fire and explosion  
1993



Baltic Exchange Bombing, April 1992



Cyber Trigger  
2018



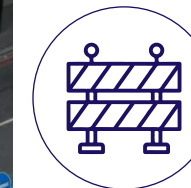
'All Risks',  
including CBRN  
2003



9/11 Attack, September 2001



London Bridge Attack, June 2017



NDBI  
2019

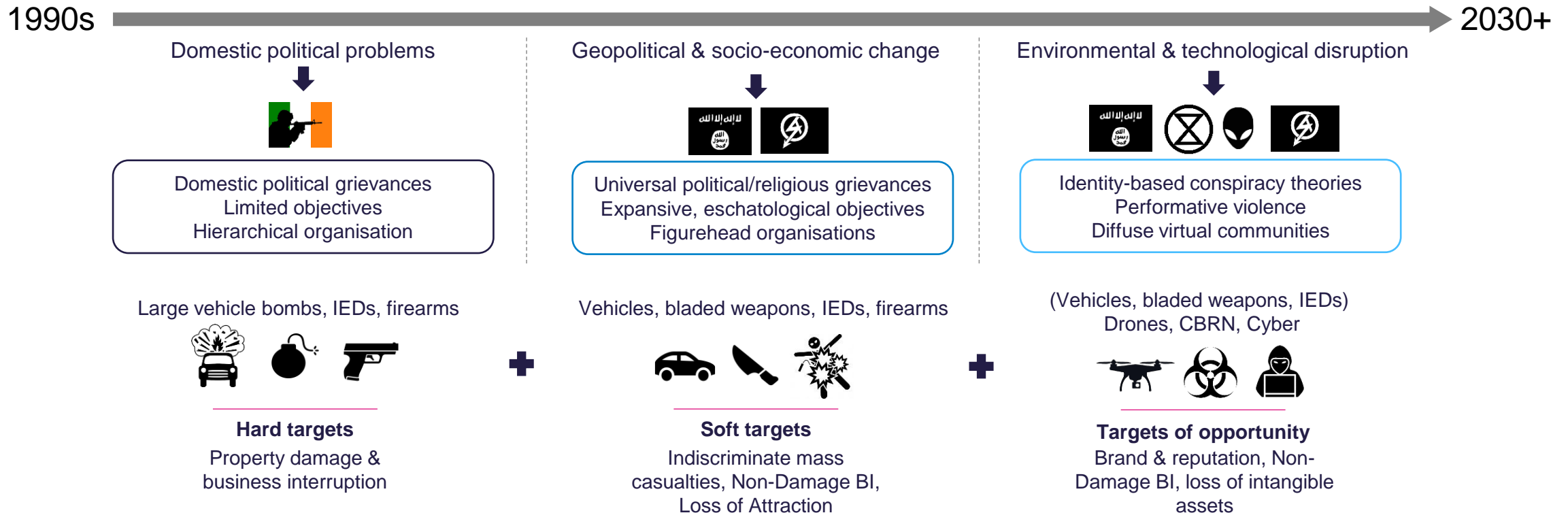
## The Changing Face of Terrorism

*Statistics from Pool Re's Terrorism Database show that around **two-thirds** of terrorist attacks in Western Europe since 2014 would not have triggered insurance policies which only covered property damage*



# The terrorism threat in the UK is constantly changing and Pool Re needs to stay ahead of the changing landscape

Since the 1990s, terrorism has shifted from coordinated attacks causing property damage and aimed at economic disruption, to indiscriminate attacks with intent to cause mass casualties. However, the threat of 'spectacular' attacks against iconic targets remain, and terrorists are constantly exploiting new technologies and geopolitical developments to evade counter-terrorism measures and expand their reach







# Pool Re Solutions' Co-ordinating Capability

We are able to use our unique position between the public and private sectors to invest in partnerships and protective security initiatives with academia, risk specialists, and public agencies to understand and mitigate modern terrorism.





# Covid-19 and the UK Insurance Industry

# Covid-19 has highlighted the contractual ambiguity of many property policies' BI coverage, leading to reputational damage and uncertainty over the ultimate cost of claims

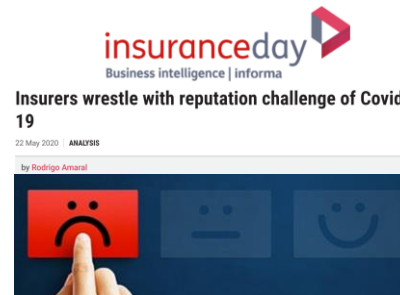


## Litigation and Regulation

- **Businesses denied cover for COVID-19 losses have banded together to form action groups** (some already have backing from litigation funders) and plan to bring proceedings against insurance providers including Hiscox, QBE, RSA and Ecclesiastical
- **The basis of the threatened court action centres on both the ambiguous extensions to certain BI policies and unclear infectious disease policy exclusions.** One such extension for example provides cover for notifiable disease or contagion within a 25 mile radius of an insured building
- **The FCA has stated most of these policies are unlikely to cover the current emergency.** However, in May it announced it would seek clarity from the courts on whether the wording of some insurance policies meant they should provide cover during the pandemic, with a test case to be brought in early July
- **Wordings will hold the key to how much business interruption is covered** by insurance and already appear to fall in three broad categories: where affirmative cover has been knowingly provided; where policy wordings are vague and uncertain; and where cover has been explicitly excluded by policy terms.
- The Insurer, 26 May 2020: ***"The UK industry's reputation continues to be tarnished with articles like this in the national press. Of course, without looking at the policy wording in full it is difficult to know whether the criticism is valid but – regardless – it looks bad... Either way, one can understand the anger and frustration of a small business owner facing both potential ruin and an insurance company seemingly relying on torturous legal arguments."***

## The Cost of Uncertainty

- **The global insurance industry's business interruption losses from Covid-19 are likely to run to several tens of billions of dollars.** But the final figure remains subject to major uncertainty, given the ongoing nature of the pandemic and potential for lengthy legal disputes.
- Putting an estimate on the likely cost of the industry's Covid-19 business interruption exposure is challenging, given those uncertainties. Analysts at **UBS have estimated non-US business interruption losses could be as high as \$22bn**, based on the understanding up to 50% of policies could potentially cover infectious diseases.
- **Lloyd's has said the market expects to incur between \$725m and \$1bn of Covid-19 claims** through property policies during the first six months of the year, representing 29% of the market's total expected claims bill for the six-month period.
- The biggest uncertainty remains for the insurers directly affected by group actions



# Any practical solution to pandemic risk must rely on a Government guarantee due to the size of any probable loss scenario



Estimated forecast of lost UK business income due to Covid-19<sup>1</sup>

£1.2 bn

Estimated insurer payout to UK businesses under existing business interruption policies<sup>2</sup>

£18.1 bn

UK commercial insurance GWP for 2019<sup>3</sup>

- **Sam Woods, deputy governor at the Bank of England:** speaking to House of Commons Treasury Committee: Evidence session on the economic impact of COVID-19, April 15, 2020: “A pandemic...is insurable to a degree but less so than some other things. So I think it’s an interesting question on Flood Re and Pool Re. *This is an area where it makes sense to have some sort of government-backed or government-associated pooling of risk.*”
- **Sir Bob Neill MP, chair of the Justice Select Committee:** “*It’s only government that can ultimately put enough resilience in the system* and it’s going to need a more coordinated approach.” (Insurance Age 12 May 2020)
- **Chris Woolard, interim chief executive of the Financial Conduct Authority,** speaking to House of Commons Treasury Committee: Evidence session on the economic impact of COVID-19, April 15, 2020: “I think what we’ll see in the short term, though, as we did after SARS, is seeing firms seeking to write that out of their standard cover very quickly, that will be the most immediate action that we’ll see. But I think there will be a demand for this in the market. *It may have to go down the same route as terrorism or other events that are very, very difficult for the market on its own to absorb.*”
- **Stephen Catlin, CEO Convex:** “The industry has total market capitalisation of circa \$750bn. The UK government alone has already put forward an aid package of £330bn [\$407.49bn]. When you add in the cost to governments across the world, it is not realistic to think the insurance industry has that kind of capital. If we did, the cost of the product would be prohibitively expensive and no one would buy it... *This will always be a government risk because of the size, similar to a major systemic cyber attack, and it is not within the industry’s ability to pay that kind of loss.*” (Insurance Day, 22 April)



# Responses from the UK



# In the UK, a number of groups have been established with the intention of devising a pandemic insurance solution

Group	Members	Timeframe	Notes
<b>Pandemic Re</b>	<p>Chaired by Stephen Catlin, the group has strong senior representation from across the insurance industry, as well as support from a number of risk advisory experts and consultancies</p> <ul style="list-style-type: none"> <li>Pool Re is a participant in this group and supports the proposal being developed</li> </ul>	Aug/ Sep 2020 with an initial proposal to Government	<ul style="list-style-type: none"> <li>Six 'Working Groups' have been formed to solve for Customer and distribution; Technical insurance; Modelling; Scheme structure and operating model; Preparedness and mitigation; Regulatory and Government affairs, respectively</li> </ul>
<b>Recover Re</b>	<p>A Lloyd's initiative, members include representation from the Lloyd's market across its managing agents, and supported by the Lloyd's innovation team</p>	Unknown	<ul style="list-style-type: none"> <li>One initiative under consideration includes establishing a 'Recover Re' insurance vehicle offering "after the event" cover for pandemic related business recovery, including the current COVID-19 pandemic</li> <li>To repurpose existing innovation initiatives in its Innovation Lab and Product Innovation Facility to help fast track the development of the new solutions</li> <li>Have set aside £15m in seed capital to explore how the industry can create or house structures which support economic recovery and mitigate against future events of this magnitude</li> </ul>
<b>Totus Re</b>	<p>Being independently developed by James York (deputy chair of Insurtech UK) and Liz Foster (non-executive director at the Society of Insurance Broking)</p>	Unknown	<ul style="list-style-type: none"> <li>An "open collective" designed to pre-empt macro perils for any catastrophic pan-economic event</li> <li>Totus Re would sit at the centre of an insurance cell structure, including the existing national pools</li> <li>Lobbying professional business bodies to call on Chancellor to agree a pandemic insurance model – and support Totus Re as the answer</li> </ul>
<b>Black Swan Re</b>	Lloyd's	Unknown	<ul style="list-style-type: none"> <li>A 'Black Swan Re' could be a funded structure (like the UK's Pool Re) that sets up a private/public partnership to provide coverage for non-damage business interruption from systemic risks such as pandemics, internet outages, space weather etc</li> <li>A Black Swan Re structure would enable insurers to provide this cover because they would have government backing for losses</li> <li>Another way of doing this could be to expand the scope of existing pooled schemes, and so diversify some of their exposure</li> </ul>

# A public-private approach to pandemic risk must take in to account a number of core design principles



## Responsive to needs to all UK businesses, including small and mid-sized businesses

- Cover is appropriate for nature of disruption experienced as a result of a pandemic lockdown
- Consistent for businesses across all sectors



## Encourages customers (businesses) to purchase cover

- Cover is affordable
- There is demonstrable value (vs non-insurance)
- Terms are easily understood



## Encourages insurer (private market) participation

- Indemnity is limited to appropriate amount (ie. tail risk is manageable)
- Improves understanding of risk and associated loss



## Incentives exist for risk reduction

- Pricing that reflects risk reduction, supported by appropriate model(s)
- Potential risk reduction pre-requisites to purchase



## Appropriate speed to market

- Set-up of a functional solution within a reasonable timeframe in anticipation of any further disruption (eg. subsequent waves, other new pandemic risk)



## Claims paid to policyholders are quick and efficient

- Lines of credit (where relevant) are pre-established and associated governance to use it is clear
- Legally sustainable definition of pandemic and robustly defined event triggers which are transparent and objective

# Pool Re can leverage its existing capabilities to house a public / private pandemic response



## Benefit of creating solution in the expanded remit Pool Re umbrella structure



### Depending on choices made, Pool Re could be ready to offer Pandemic cover quickly

- Any new start up entity, especially if it was a public entity, could take several years
- Pool Re has a proven track record as it developed NDBI cover in less than a year. Pandemic more complex and numbers much bigger, but at its simplest it could still be a BI extension
- Time will be of the essence as Government might want as many businesses to have bought cover by 2021 as is possible
- Pool Re is well placed to act as a conduit for discussions between the industry and government
- Any retro will be in short supply and in light of global correlation, the UK must act fast to access finite global reinsurance capacity before it is exhausted by any other state-backed pools that are created



### Pool Re as a Members mutual has an existing relationship and mechanism in place with the relevant insurers, which can elect to join the individual 'Classes'

- Most, if not all insurers wanting to do pandemic will already be Member of Pool Re
- By bolting on the solution to the existing scheme, there is already the legal, regulatory and reinsurance frameworks in place



### Pool Re is already working with BioRISC and Cambridge (CCRS) on biological pathogens and that work could be extended to underpin the model

- Pool Re already covers pandemic where caused by act of terrorism
- These organisations are the leading technical experts in this space



### Pool Re is also well placed to use data from other Government agencies to underpin any analytical work

- Government agencies and other stakeholders trust Pool Re whose staff are Security Cleared, so work is much easier with Pool Re than anyone else
- Sharing Covid-19 data once event finished will be crucial and Pool Re already have relationships in place with CT, OSCT, Home Office, Cabinet Office, NCSC, CT Police and MI5 etc.



### A prototype actuarial Model can potentially be built within 9 months as demonstrated by the creation of the NDBI model in a similar timeframe

- Pool Re is confident it could similarly create a prototype model once current event data is available



### Once established, Pandemic Re would constitute an efficient claims-paying coordinator and trusted conduit between HMT, insurers, and businesses impacted by a future systemic event

- This benefit would be consistent with the Steering Group's statement that "The executives on the group are also likely to focus on how the industry's claims-paying infrastructure could be repurposed to funnel government relief" as well as enable government to recoup funds paid out via future payments (Mandatory offer v Purchase)



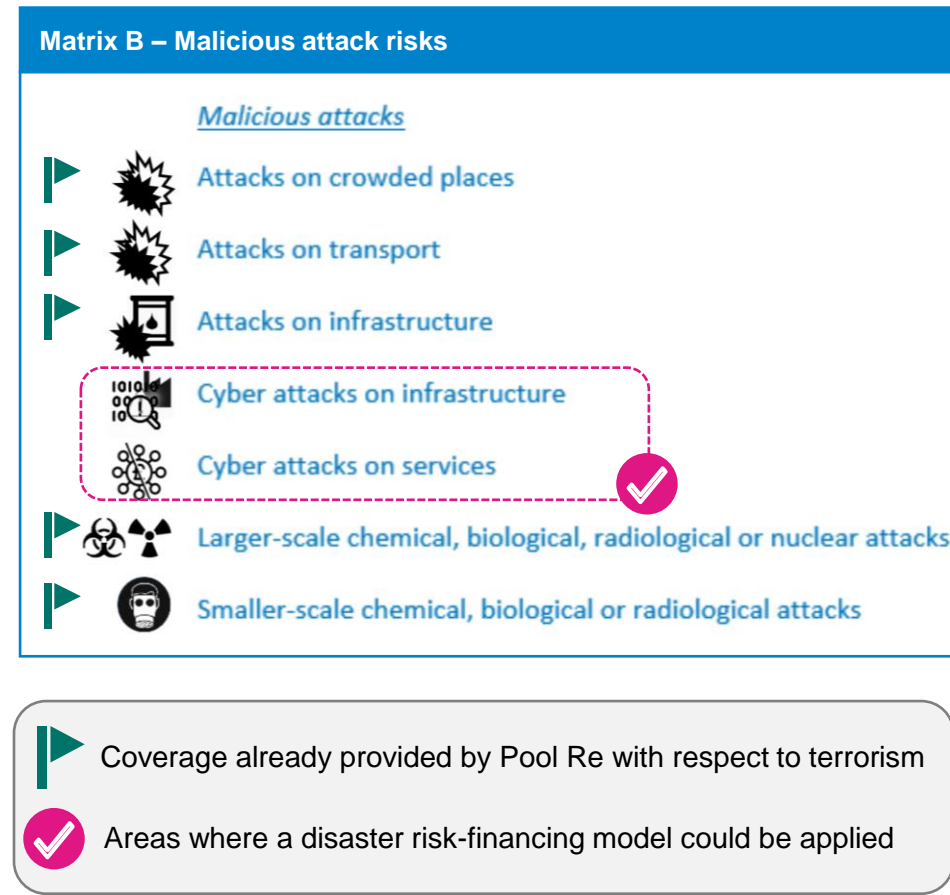
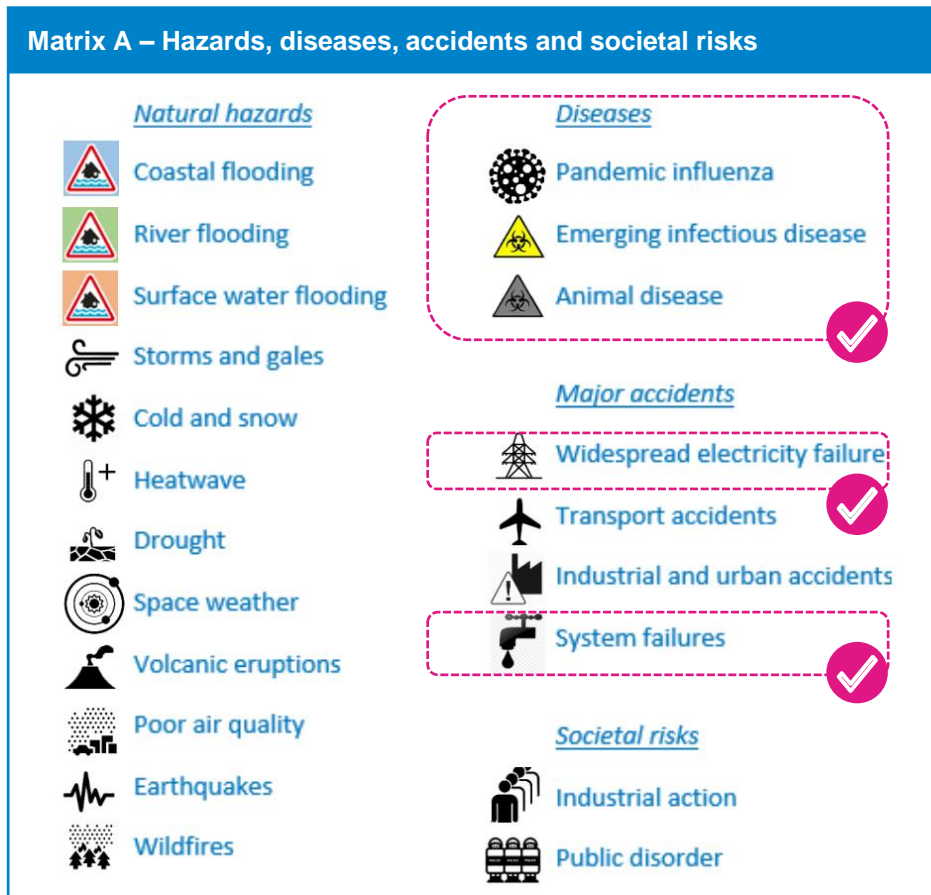


The broader role of public-private risk  
financing in the 2020s

# Some of the risks on the UK's National Risk Register could be partially (re)insured directly or via a public/private model established to transform them into insurance based products



This monetises HMG's implicit guarantees, provides a paying agency and payment recoupment mechanism, grows insurance markets, and improves societal resilience and the UK's overall economic model



# The management of pandemic risk in a Pool Re umbrella structure alongside the existing terrorism scheme would be a more efficient arrangement for Government and industry



A Pool Re umbrella structure has the potential in the future to help solve for systemic business interruption risk, and not be limited to specific peril based triggers such as pandemic events

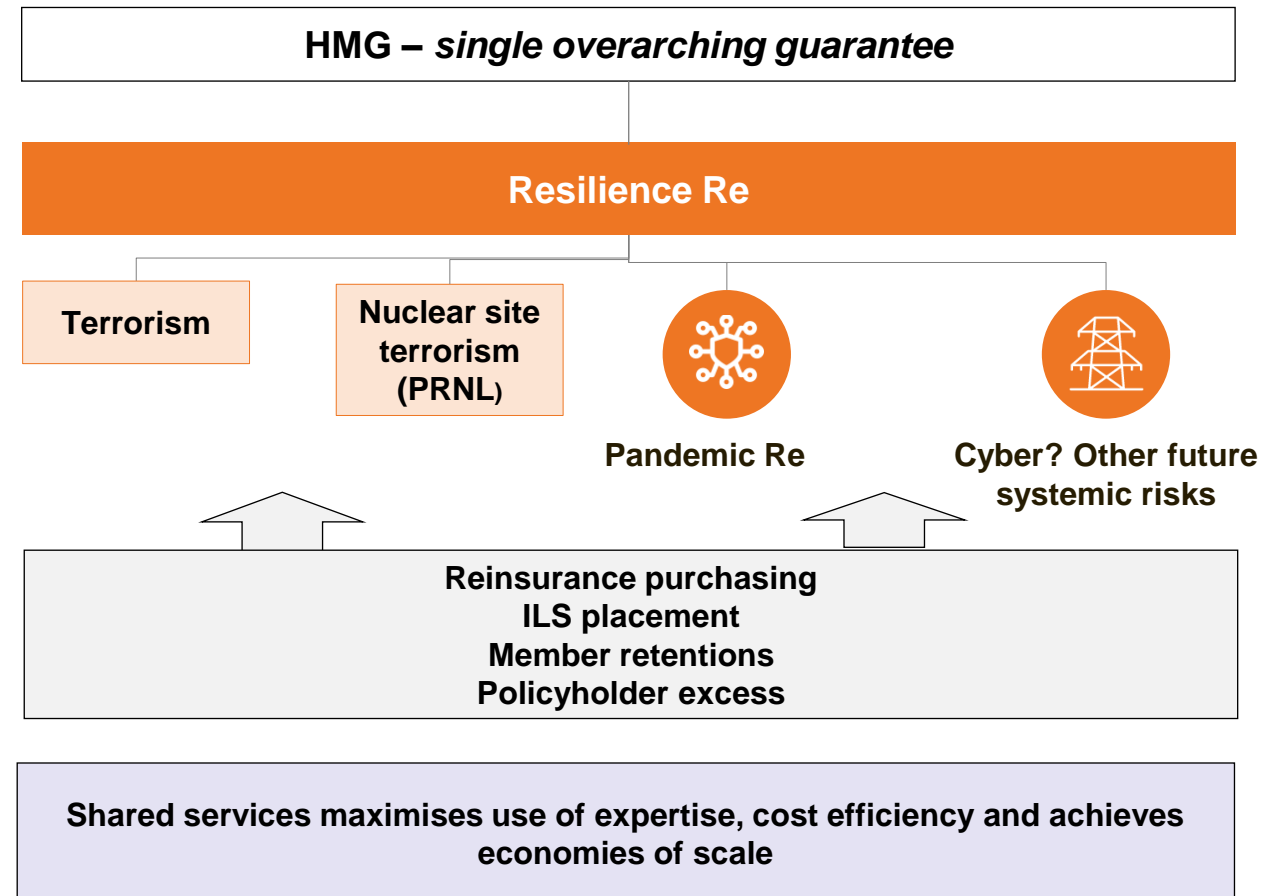
## A narrow view of risk and claims

- Currently, claims are paid if **specific criteria is met relating to a defined peril based on strict definitions** of events and associated policy wordings

VS

## Ensuring the right customer outcomes

- Potentially in the future, claims are paid if **specific adverse outcomes for insured policyholders occur, regardless of the underlying peril** – in line with relevant governance
- This requires a step change in how the insurance industry views risk** and is therefore conceptual at this stage based on high level principles
  - In any case, holding systemic risks under a single umbrella allows for this flexibility in the future





# A multi-peril umbrella structure would be in the national interest, and benefit all stakeholders

## UK Business

- ✓ **Diversification reduces cost of premiums**
- ✓ **Provides comprehensive, accessible, affordable protection against disaster risks** which would otherwise be excluded
- ✓ **Minimises financial disruption during and after a disaster**, and enables **quicker regeneration**
- ✓ **Provides clarity on coverage** during and after an event, and the **means for claims to be paid** in full and in a timely manner
- ✓ Invests in **understanding and mitigating risks** which otherwise would remain poorly understood
- ✓ **Cover and prices remain available**, even after a large event
- ✓ New insurance cover can be designed to **reward risk mitigation activities**

## Government

- ✓ **Monetisation of currently implicit guarantees**
- ✓ When liabilities crystallise, **avoids the need for hastily scrambled ex-post Government bailouts and financial relief**, with associated economic multiplier effects
- ✓ **Efficient, pre-arranged distribution channel to pay claims** when the economy is disrupted, utilising insurance industry infrastructure and governance
- ✓ **Reduces moral hazard**
- ✓ A consolidated approach leads to **economies of scale, cross-subsidy benefits**, and gives **greater efficiencies** in administration
- ✓ **Increased national resilience** and support for investment in UK plc
- ✓ **Potential for international risk pooling** and/ or promotion of ILS
- ✓ **A co-ordinated approach to risk management** and **incentives for investment in risk prevention**
- ✓ **Leverage London's world-leading risk transfer industry**, positioning UK as a thought leader in the field

## Members and Industry

- ✓ **More robust market** and reduced volatility of claims
- ✓ **Diversified capital** and optimised reinsurance purchasing
- ✓ **Provides stability**, solvency, legal clarity, and policyholder confidence at the point of crisis
- ✓ Provides industry with means to ensure their **value proposition is relevant to today's risks and avoid criticism post-disaster**
- ✓ Allows it to **incubate products for risks for which there would otherwise be no market**, secure that the tail risk is covered
- ✓ **Provides profit and innovation opportunities** associated with being able to address emerging and catastrophic risks
- ✓ Stimulates **improved understanding, modelling and management of risks** which are difficult to insure

# Questions & Discussion, Answers?



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04 August 2020 (11:00) [Esop Sofa – Lockdown Stories: Adapting To Business Life During The Pandemic](#)

05 August 2020 (15:00) [CommunityZ Chest – 21st Century Security with Edmund Fitton-Brown](#)

06 August 2020 (10:00) [Going, Going, Gone: Natural History Specimens Speak Of Biodiversity Loss](#)

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