

## Executive Summary

# Terrorism: A maturing market meets an evolving and expanding peril

Commentary from both within and without the (re)insurance industry increasingly points to an undeniable fact: The nature of the terrorism threat facing society has changed considerably in the last 20 years. Previously, governments and (re)insurers structured their mitigation strategies and responses to deal with attacks that were large in scale, such as the events of September 11, 2001 in the United States and the IRA bombing campaign in the United Kingdom.

Recently, though, we have seen a spate of smaller, less sophisticated, yet no less appalling acts of terrorism across geographies that involve mass casualties and fear-inducing events. Australia, Belgium, France, Germany, Indonesia, Spain, the United Kingdom and the United States are a few of the countries where such acts have occurred. And the type of threat will continue to change as new technologies and opportunities reveal themselves to terrorist organizations – cyber terrorism is an example of a newly developing frontier within the peril.

The peril is therefore truly global; with improved online connectivity and the prevalence of the “dark web,” terrorists are increasingly able to modify, adapt and reinvent their tactics and quickly spread their methodologies to their worldwide support

base. Economically, the effect of this change across the globe has been significant. Tourism, trade and investments are examples of areas affected as countries grapple with terrorist actions, both direct and indirect. According to the Institute for Economics and Peace, although the peak of global economic impact from terror events was reached in 2014, it remains at historically high levels.

It is estimated that in the United Kingdom alone between 2004 and 2016, terrorism cost EUR 43 billion in gross domestic product growth. Across the European Union, that cost was estimated at EUR 180 billion, with the 2017 UK terrorist attacks creating an economic loss of around EUR 3.5 billion.<sup>1</sup> The size of these figures demands that the political and industrial arenas take action to build capacity in the area of terrorism. Inevitably, the action takes the form of a security line of effort, but the (re)insurance sector also has an important role to play – directly, by offering products to consumers that mitigate the risk of loss, or indirectly, by offering solutions that minimize risk to government balance sheets. It is clear our industry will play an important role in shaping the response to this threat.

More than ever before, brokers and underwriters must use their expertise and solutions to keep insurers and citizens adequately protected. With the peril mutating rapidly, the entire insurance value chain is being challenged – by new types of threats, new modes of attack and the terrorists’ deployment of any violent and disruptive means to reach their desired end-state. The (re) insurance industry must remain in tune with these developments; it must gain insights from academia and observers on how the peril is changing, keep alert to new products in the market, unlock new sources of capacity and help clients understand their portfolios more readily so they remain relevant to their consumer base.

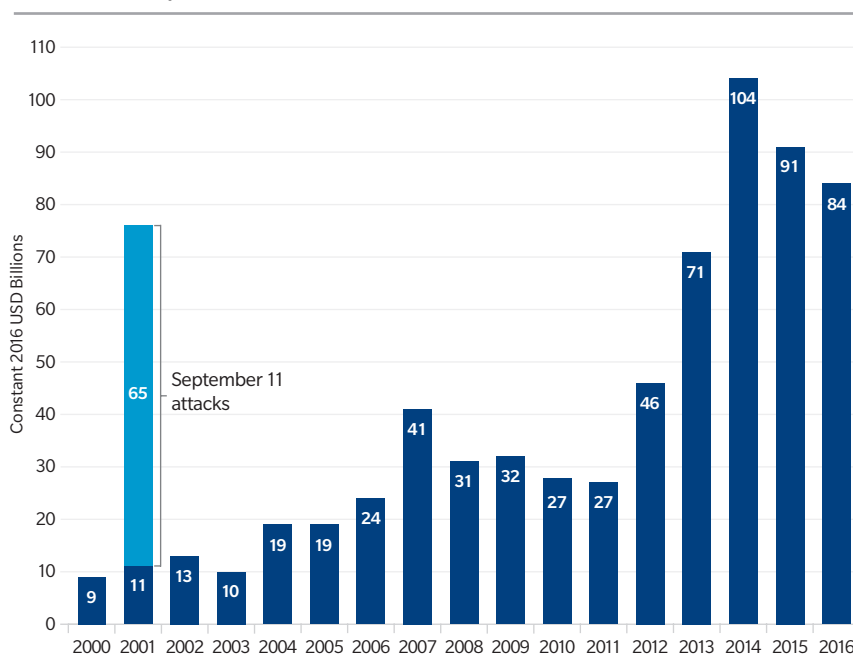
1. RAND Europe: The Cost of Terrorism in Europe, 2018.

The industry is well placed to meet these demands head on. New sources of capital combined with capital supplied by traditional reinsurers can potentially create abundant supply, enabling insurers to grow their offerings, both geographically and in terms of coverage.

For the capital to be released and matched with the right risk profile, improved understanding and modeling of the peril are crucial. Of equal importance is overcoming the challenges of unlocking and creating end-consumer demand and the distribution process.

State terrorism pools and the open market have important roles to play in the next phase of the terrorism protection market's development. Their participation will likely ensure that the line of defense offered to economies and individuals by the market is relevant and fit for purpose.

The economic impact of terrorism, 2000-2016



Source: Institute for Economics and Peace, Global Terrorism Index, 2017.

Estimated Terrorism Cost in GDP  
Growth in European Union

**EUR 180 billion**

2004-2016<sub>1</sub>

Estimated Economic Impact of  
Terrorism Globally

**USD 616 billion**

2004-2016<sub>2</sub>

Excerpted from Guy Carpenter's full report on Terrorism: A Maturing Market Meets an Evolving Peril, September, 2018.

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