

News Release

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Guy Carpenter Report Reinforces Need for TRIPRA Renewal

Government Involvement Needed to Support Terrorism Market as Global Risks Remain

New York, June 18, 2014 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and member of Marsh & McLennan Companies (NYSE: MMC), today released its latest report on global terrorism. The report highlights evolving global terrorism risks and the impact these risks have on the reinsurance market. It also emphasizes the vital role the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) plays in the United States ensuring the availability and affordability of terrorism (re)insurance capacity throughout the country.

“Despite a significant increase in the number of global terrorist attacks and fatalities over the past five years, evolving capacity and the absence of a major terrorism loss for reinsurers have resulted in a softening of the terrorism reinsurance market in some countries and regions,” said Aaron Bueler, Managing Director and Leader of Guy Carpenter's Workers Compensation Practice and Terrorism Task Force. “In the US, the renewal of TRIPRA will play a significant role in determining how much affordable capacity will be available for businesses who buy terrorism insurance coverages.”

A recent study by Guy Carpenter concludes that the (re)insurance sector does not have the capital necessary to withstand certain high-loss scenarios that involve nuclear, biological, chemical or radiological weapons.

Global Terrorism

The global terrorism landscape has undergone significant change since the attacks of September 11, 2001 as improved intelligence and effective counter-terrorism operations have prevented repeat attacks of that scale. Nonetheless, al-Qaeda and its affiliates, along with individuals inspired by the movement, continue to pose a significant threat to Western interests around the world.

Looking at developments over the past eighteen months, the threat from Islamic militants has shifted to softer targets, with attacks and plots becoming more localized. The first major attack on US soil since September 11, 2001 occurred in April 2013 when a plot perpetrated by two self-radicalized individuals resulted in two bombs exploding near the finish line of the Boston marathon.¹ Individuals inspired by al-Qaeda also carried out relatively low capability but high profile attacks in other Western countries during this time, including the United Kingdom. In addition, attacks on the In Aménas gas facility in Algeria and the Westgate shopping mall in Nairobi, Kenya, in 2013 indicate that groups are still capable of launching destructive and sophisticated attacks on commercial entities.

¹ While the Boston bombings have not been classified as an act of terrorism under TRIPRA's requirements, President Barack Obama described the event as an “act of terrorism.”

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The volatile landscape in Middle Eastern countries, Syria and Iraq in particular, as well as North African countries, will have important consequences on the future of the international terrorist threat. The instability in the region has created opportunities for militants to launch attacks and target Western interests. The spillover of violence is a clear risk in 2014 and beyond.

The Global Terrorism Reinsurance Market

Despite the recent spike in terrorist-related activity, evolving capacity and the absence of a major terrorism loss for reinsurers have resulted in a softening terrorism reinsurance market in areas with less perceived risk. While regionalized terrorism and political violence activity has impacted certain facultative programs and affected pricing and capacity at the local level, adequate terrorism capacity continues to be available in the reinsurance treaty marketplace for certain countries and territories.

This reflects the wider reinsurance market's environment of having adequate capacity and, for some countries, the presence and support of stable terrorism pools that are designed to mitigate the withdrawal of (re)insurance capacity following significant terrorism events. Reinsurance buyers that have purchased terror cover in these countries have consequently benefited from rate decreases and improved terms and conditions in some instances, depending on where and what they write.

TRIPRA

The US market, however, continues to be challenged by the uncertainty over the potential expiration of TRIPRA on December 31, 2014. Either substantial modification or non-renewal of TRIPRA has the potential to impact terrorism coverage in the United States. The US House of Representatives and Senate are currently considering various changes to TRIPRA. Uncertainty remains over the final terms and duration of reauthorization.

Market reactions to uncertainty over TRIPRA's future were evident during the first five months of 2014 as several workers compensation renewals with sizeable employee concentrations in large US cities changed carriers and, in some cases, moved into the various residual market mechanisms.

"We are encouraged by the recent legislative activity addressing the expiration of TRIPRA and hope for continued progress and a final bill in the near future," said Bueler. "The planning process for the January 1, 2015 (re)insurance season will start soon and the certainty of a TRIPRA renewal will be a key factor."

TAGS/KEYWORDS

Aaron Bueler, global terrorism, terrorism risk, reinsurance, Middle East, TRIPRA, Guy Carpenter, Marsh and McLennan

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