

# Global Terror Insurance Market

A World at Risk Keeps Watch

June 2006

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## Introduction

The terrorist acts of September 11, 2001 have caused many changes in the global terror insurance market. One major trend is the exclusion of terror in contracts by numerous insurance and reinsurance companies globally.

Simultaneously, many governments are becoming more involved in mitigating the risk exposure of insurance and reinsurance companies. Further, a number of countries have developed specific terror pools addressing the risks of terrorism.

This survey addresses the wide variations of terror cover globally, encompassing information from six continents and 34 countries. Information was obtained from Guy Carpenter and Marsh & McLennan offices located around the world. It reflects current market knowledge and is updated as new information is acquired.

## Executive Summary

The tragic terrorist events of September 11, 2001 in the United States spurred numerous changes in the global terror insurance market. While terror risks were often covered, or not specifically excluded, before the terrorist actions of September 11, 2001, a more recent trend of insurers and reinsurers globally is to exclude terror coverage from their contracts.

The United States, Australia and select European countries have developed comprehensive programs for terror coverage, while many other countries currently have no terror pool or government involvement in terror coverage.

### **North America (United States and Canada)**

In the United States, the Terrorism Risk Insurance Act of 2002 (TRIA) provides a financial backstop for commercial insurers from potential insolvency arising from underwriting terrorism risks. It supplies insurers with federal assistance for property and casualty insurance losses resulting from terrorism. The act was renewed at the end of 2005. The chart on page 5 compares the two bills.

Since the Canadian economy did not suffer as extensively as the United States after the terrible events of September 11, 2001, the country has yet to legislate a government reinsurance scheme similar to that of the United States. For primary policies, many insurers have opted to exclude terrorism from commercial property policies that are written on an “all-risk” basis.

### **Europe**

Many European countries have developed specific multi-layered pools or programs addressing terror risks, including Austria, France, Finland, Germany, the Netherlands, Spain, Switzerland and Sweden.

In France, the GAREAT program was created to provide terrorism insurance through two schemes: one for large risks (sums insured over EUR6 million), and one for mass risks (sums insured below EUR6 million). The large risks plan is organized into the five-layered scheme shown in the chart on page 9.

In Germany, the Gesamtverband der Deutschen Versicherungswirtschaft (GDV, Association of German Insurers) and the German government created EXTREMUS, a German specialist company covering terror-caused property damage. The shareholders consist of primary insurers and reinsurers operating in Germany.

In 1993, the United Kingdom created Pool Re, a government-backed terrorism mutual reinsurance company. The government agreed to an unlimited state guarantee should the funds of Pool Re become exhausted. The pool initially limited itself to reinsurance coverage for property damage and business interruption losses arising from fire and explosion. In 2003, the cover was expanded to include terrorism on an “all risks” basis. Under the Pool Re program, member insurers are not permitted to select which properties are insured for terrorism cover. Their choice is to have terrorism cover either for all their properties or none at all.

**Asia Pacific**

In Australia, the ARPC (Australian Reinsurance Pool Corporation) scheme is composed of three layers. Above AUD10.3 billion, the Ministry of Finance determines whether or not to go pro rata. The program is discussed in the chart on page 16.

In India, the Terrorism Risk Insurance Pool fully reinsures all terrorism risks underwritten by participating primary companies. In Taiwan, an insurance pool provides terrorism coverage for personal accident business. Currently, there is no terror pool or government involvement in terror coverage in both Malaysia and the Philippines.

**Latin America, Middle East, Africa**

In Latin America, Colombia offers a comprehensive terror coverage, as most primary insurers included terrorism cover for all local property/casualty policies, subject to a local deductible. Currently, there is no terror pool or government involvement in terror coverage in Argentina or Mexico.

In the Middle East, Israel has two programs. The Victims of Hostile Action (Pensions) Law (VHAP) provides compensation for bodily injuries suffered in terrorist attacks, as well as compensation to family members of deceased victims. In addition, the Property Tax and Compensation Fund Law (PTCF) provides compensation for property damage caused by terrorism.

In South Africa, the South African Special Risks Insurance Association (SASRIA Limited) has a primary objective to provide insurance cover to protect assets against certain defined events, particularly politically motivated acts including terrorism and political riot.

In Africa, primary insurance for damage from terrorist acts in Namibia is provided by the National Special Risks Association (NASRIA), and the Namibian government currently acts as ultimate reinsurer.

**Conclusion**

In conclusion, the many appalling terrorist events including and since September 11, 2001, and the ensuing economic losses globally have prompted insurers and reinsurers to change the way they approach terror coverage. Furthermore, while private insurers increasingly are excluding terror coverage, many governments are becoming more involved in mitigating the risk exposure of insurance and reinsurance companies.

Countries have arrived at differing solutions to cover the risks of terrorism, depending on their economic, political and historical experiences. Some countries like the United States, Australia, Spain, France and Germany have developed comprehensive programs for terror coverage, while many other countries currently have no terror pool or government involvement in terror coverage.

## North America

### United States

Prior to the events of September 11, 2001, terrorism risks for property were covered under “all-risks” policies, where all perils were covered except for named exclusions. In the primary insurance market, thirty-one jurisdictions have legislated that property policies be based on the 1943 New York Standard Fire Policy (SFP). The SFP contains few exclusions and specifically does not exclude terror as a cause of loss by fire. Further, the hazard of “fire following” an event is covered even if the peril that causes the fire is not covered in the policy.

After September 11, 2001, many states approved exclusions for terror from property policies. Twelve states<sup>1</sup> allowed for terrorism exclusions to be added to the SFP. Five states<sup>2</sup> refused to allow any terrorism exclusions from commercial lines policies.

On November 26, 2002, the Terrorism Risk Insurance Act of 2002 (TRIA) was implemented to provide a financial backstop for commercial insurers from potential insolvency arising from underwriting terrorism risks. It supplies insurers with federal assistance for property and casualty insurance losses resulting from a “certified act of terrorism” (an act committed on U.S. soil by foreign terrorists). Primary and/or excess commercial property/casualty insurers for U.S. risks are required to participate in the program and are required to make coverage available for certain terrorist events. The act defines “make available” to mean that the coverage must be offered for insured losses arising from certified terrorist events, and it must not differ materially from the term, amounts and limitations applicable to coverage for other insured losses. Losses covered are those insured under primary and/or excess property/casualty insurance, workers compensation and surety contracts. TRIA covers 90 percent of insurance losses to insurers once the deductible is reached, up to an annual program limit of USD100 billion.

In December 2005, the TRIA Extension bill was passed. The chart on page 5 compares the two bills.

The Terrorism Risk Insurance Extension Act of 2005, which extends through 2007, provides for the President's Working Group on Financial Markets to report to Congress by September 30, 2006, regarding its analysis of specific issues for insuring against terrorist attacks. The group is seeking comments on the long-term availability and affordability of insurance for terrorism risk, including terrorism risk coverage for group life and chemical, nuclear, biological and radiological events.

On behalf of the reinsurance industry, the Reinsurance Association of America (RAA) addressed several of these issues when speaking to the National Association of Insurance Commissioners' (NAIC) Terrorism Insurance Implementation Working Group in March 2006. The RAA's analysis has led it to believe that market participants will be unable to provide the necessary capacity to fully replace TRIA coverage in the long term. Problems still exist in formulating terrorism loss scenarios, frequency forecasting and magnitudes of loss. A federal backstop is still necessary to support the private market mechanisms in spreading the risk of terrorism losses. The RAA believes that, without this federal backstop, there will be less coverage available at the policy holder level, prices will rise for terrorism cover and there will be limited private reinsurance cover.

<sup>1</sup> Arizona, Connecticut, Indiana, Louisiana, Michigan, Minnesota, Nebraska, New Hampshire, North Dakota, Oklahoma, Rhode Island and Virginia.

<sup>2</sup> California, Florida, Georgia, New York and Texas.

COMPARISON OF TRIA  
EXTENSION BILLS

	TRIA 2002	TRIA 2006
<b>Limitation</b>	Events less than \$5 million are not certified.	Events less than \$5 million are not certified.
<b>Program Trigger</b>	No program trigger	2006: Events > \$50 million 2007: Events > \$100 million
<b>Insurer Deductible</b>	2005: 15% of DEP	2006: 17.5% of DEP 2007: 20.0% of DEP
<b>Covered Lines</b>	Most commercial insurance lines	Exclusion of coverage on commercial auto, burglary and theft, surety, professional liability and farmowners multiple peril insurance. Directors and officers liability insurance was added.
<b>Insurer Shares (Co-participation)</b>	2005: 90% federal/10% insurer	2006: 90% federal/10% insurer 2007: 85% federal/15% insurer
<b>Program Cap</b>	\$100 billion per year for insured losses (federal and industry combined)	\$100 billion per year for insured losses (federal and industry combined)
<b>Recoupment of Federal Share via Policyholder Surcharge</b>	Mandatory recoupment of all federal payments if insured loss < \$15 billion. Surcharges not to exceed 3% of premiums per year.	Mandatory recoupment of all federal payments if insured loss < \$25 billion in 2006 and \$27.5 billion in 2007. Surcharges not to exceed 3% of premiums per year.
<b>Foreign vs. Domestic</b>	Only foreign-inspired acts of terrorism covered.	Only foreign-inspired acts of terrorism covered.
<b>Long-Term Solution</b>	TRIA was established as a "temporary" solution.	The President's Working Group on Financial Markets is required to report to Congress by September 30, 2006 concerning the long-term availability and affordability of terrorism insurance, including the availability and affordability of group life insurance.

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**Canada**

For primary policies, many insurers have opted to exclude terrorism from commercial property policies that are written on an “all-risk” basis. One of the issues for Canada is the statutory nature of fire following an event and the possible exclusion of terrorism from these policies.

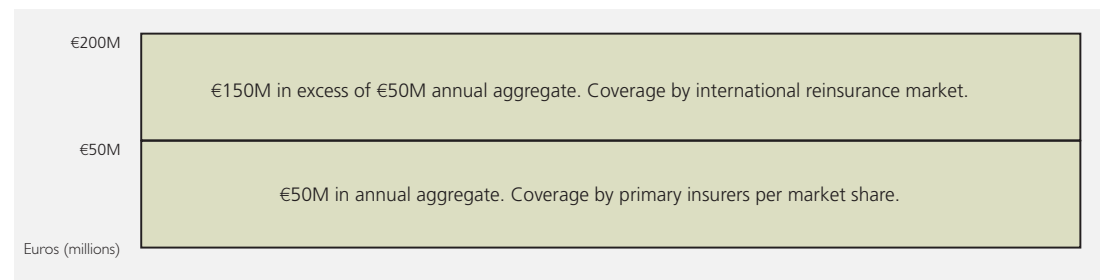
Immediately following the events of September 11, 2001, it was assumed that Canada would follow the United States in implementing a government reinsurance scheme as a financial backstop. This would enable Canadian commercial insurers to underwrite terrorism risks by safeguarding them from potential insolvency caused by those risks. Currently, no legislation has been passed. The Canadian government felt that insurers had not shown a willingness to commit a sufficient percentage of their assets to any proposed program. In addition, there was no compelling evidence to show that a lack of a government financial backstop had contributed to an economic slowdown in Canada following September 11, 2001.

## Europe

### Austria

Prior to September 11, 2001, terrorism risks were not considered to be a threat to Austria's population or industries, and in general, terror coverage was not excluded in primary insurance policies. On October 1, 2002, Austrian insurers in the Verband der Versicherungsunternehmen Österreichs (VVO, the Austrian insurance association) created Österreichischer Versicherungspool zur Deckung von Terrorisiken (The Austrian Terrorpool) in a response to the changing perception of risk following the terrorist events in the United States. The Austrian Terrorpool was created as a mixed co-insurance and reinsurance pool, with the primary object of offering affordable property cover against risks arising from an insured peril triggered by terrorism. The Terrorpool acts as reinsurance, with the direct writing insurer issuing a separate terrorism policy and then ceding the business to the Terrorpool. While terrorism cover and Terrorpool membership are optional, 99 percent of the Austrian Insurance Association (VVO) members belong to the pool. The members' share of the pool is prorated to their market share in property insurance.

The Terrorpool consists of two layers, shown in the chart below. In an effort to avoid deterring the private sector from accommodating terror risks, the Austrian Ministry of Finance decided against offering a third layer of cover in the form of a state guarantee.



The Terrorpool also acts as reinsurance for property damage and business interruption arising from acts of terrorism. Initial premium covers up to a maximum limit of EUR5 million per policy/location. If the sum insured is smaller than EUR5 million, the corresponding sum insured then applies. Insurance coverage also includes any kind of damages, losses, costs or expenses that are the subject matter of the insurance contract and that are directly or indirectly caused by, result from or are connected with actions taken for containing, preventing or suppressing acts of terrorism or that are related to them in any way.

### Belgium

Currently, there is no terror pool or government involvement in terror coverage. However, the Association of Belgian Insurers has created a project to restrict terrorism cover. Some of the restrictions include: 1) motor liability: first layer of EUR25 million given by the insurer of a motor vehicle used for a terrorist act and second layer of EUR50 million supported by the Motor Guarantee Fund, for a cover of EUR75 million in total; and 2) property: distinct major terrorist act analogized to war and therefore not covered.

Personal property lines, defined as "simple risks" (i.e., risks with an insured value below EUR1,110,563 or dwelling houses, museums, schools and hospitals with an insured value below EUR35,723,110) include terrorism cover as imposed by Belgian law. There is limited terrorism cover available for large commercial properties. General liability, personal lines, automobile, workers compensation and accident lines generally do not exclude terrorism cover. However, personal property lines, defined as "simple risks," include terrorism cover as imposed by Belgian law.

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Denmark	<p>Currently, there is no terror pool or government involvement in terror coverage. In regards to commercial policies, physical damage to buildings is always fully covered, whereas there are limitations/exclusions on contents and business interruption. There are no exclusions for nuclear, biological or chemical (NBC) terrorism in the original conditions of workers compensation. Reinsurance generally follows the original conditions but excludes NBC terrorism. However, terrorism is not excluded from personal lines.</p>
Finland	<p>All Finnish insurance companies, except Pohjola and If, participate in the Finnish Terrorism Pool. The pool is intended as a last resort in the event of a major terrorism loss in Finland, and recovery will be made under the pool only after all traditional reinsurance programs have been exhausted. For personal lines, there are no terrorism exclusions. On industrial and commercial lines, exclusions are imposed but with a EUR3 million per policy write-back. Reinsurance generally follows the original conditions but excludes NBC terrorism.</p>
France	<p>According to French legislation enacted in 1986, all companies issuing property insurance policies in France must provide terrorism coverage within their insurance contracts.</p> <p>Following the events of September 11, 2001, reinsurers began to exclude terrorism coverage, which became an issue especially for primary insurance companies with large risk exposures. Many insurance companies were forced to issue notices of cancellation for their entire commercial and industrial portfolios.</p> <p>With the January 1, 2002, renewal date approaching, the French insurance market was in a gridlock. The French government and the two major trade associations (FFSA and GEMA) searched for the appropriate solution.</p> <p>On January 1, 2002, Gestion de l'Assurance et de la Réassurance des Risques Attentats (GAREAT) was created to provide terrorism coverage for policies with sums insured above EUR6 million. GAREAT is an insurance/reinsurance pool covering insurers' exposures for property losses and business interruption arising from acts of terrorism affecting the territory of the French Republic. The general viewpoint is that insurers must cover acts of terrorism committed by any means, thus including the use of biological, chemical or radioactive materials and "dirty bombs."</p> <p>In late 2005, the definition of terrorism was extended to include the attack by nuclear weapons and therefore compulsorily covered by insurance companies. Previously, the use of nuclear weapons were assimilated to an act of war and thus excluded from insurance coverage. In 2006, the GAREAT board agreed to propose a Difference in Conditions (DIC) cover to existing reinsurers to take over additional coverage for nuclear terrorism, compensated by an additional premium as described in the "Large Risks Terrorism Scheme" and "Mass Risks Terrorism Scheme" sections below. If reinsurers cannot or do not wish to provide the extra coverage, they will continue to participate on the basis of the terms agreed for the January 1, 2006 renewal, but they will not be offered the 2007 renewal on the same basis.</p>

The GAREAT program is set up as two schemes: one for large risks (commercial and industrial risks) and one for mass risks (homeowners, agricultural and small businesses). Large risks are those risks where the total sum insured in respect of property damage and business interruption is greater than EUR6 million. The inception of the mass risks scheme was on January 1, 2005. Mass risks are those risks with sums insured below EUR6 million, covering personal lines as well as other policies. It also includes physical damage to automobiles.

In 2006, GAREAT organized the Heavy Risks into the five-layered scheme shown below.

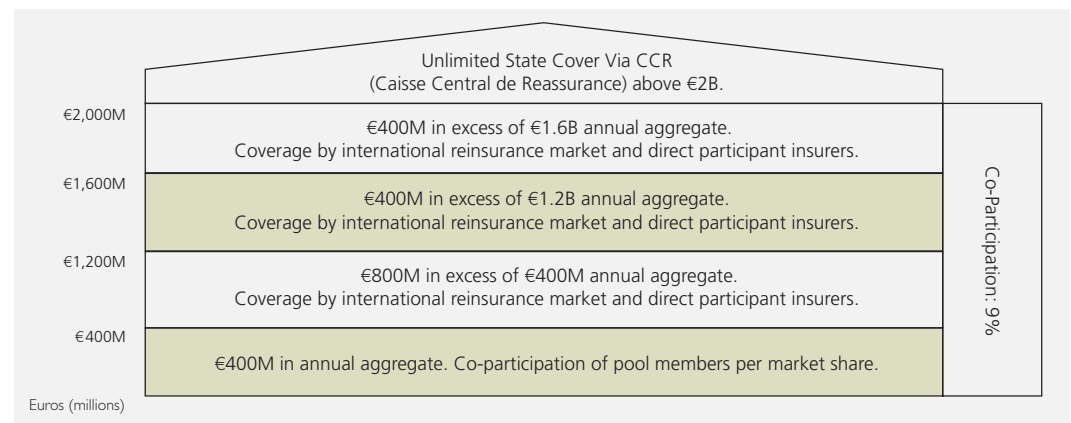
#### 2006 GAREAT Large Risks Scheme

Insurers affiliated with the French insurance associations FFSA and GEMA automatically join the GAREAT pool. Foreign-based insurers can become members of GAREAT, provided the risks covered are located within the French Republic.

GAREAT provides reinsurance protection to direct insurers as long as they cede the terrorism risk forming part or all of the qualifying portfolios within their portfolios.

The French state agreed to act as reinsurer of last resort, through the Caisse Centrale de Réassurance (CCR), for damages caused by acts of terrorism in aggregate annual losses in excess of EUR2 billion. Total capacity for 2006 is unchanged from 2005, as the unlimited warranty of the State was negotiated for a three-year period incepting in 2004. Co-participation has been increased from 4 percent to 9 percent, according to an agreement with the State.

#### Large Risks Terrorism Scheme



For the large risks scheme, the ROL for the additional Difference In Conditions to cover nuclear attack is 1.50 percent for EUR800 million xs EUR400million, 1.375 percent for EUR400 million xs EUR1200 million and 1.25 percent for EUR400 million xs EUR1600 million.

#### 2006 GAREAT Mass Risks Scheme

GAREAT Mass Risks Scheme provides coverage against terrorism losses for:

- > personal lines
- > professional, commercial risks and agricultural risks (except hail) on which the insured amounts (property loss plus consequential loss and business interruption arising out of this damage and loss) are below EUR6 million.

In 2006, the cover also is extended to risks falling within the scope of the motor branch - physical damage business only (excluding third party liability).

As of January 1, 2006, the French state, through CCR, has agreed to provide its full unlimited warranty in case of aggregate terrorism losses during the year above a retention calculated as follows:

- > 20 percent of the premium declared in Statement C4 for the following categories:
  - professional risks (category 25)
  - personal lines (category 24)
  - agricultural risks (category 262)
- > 2 percent of the premiums declared in Statement C4 for the motor category (excluding liability)

When applying the above percentages, the overall market retention for 2006 is estimated at EUR2.27 billion. The breakdown is as follows:

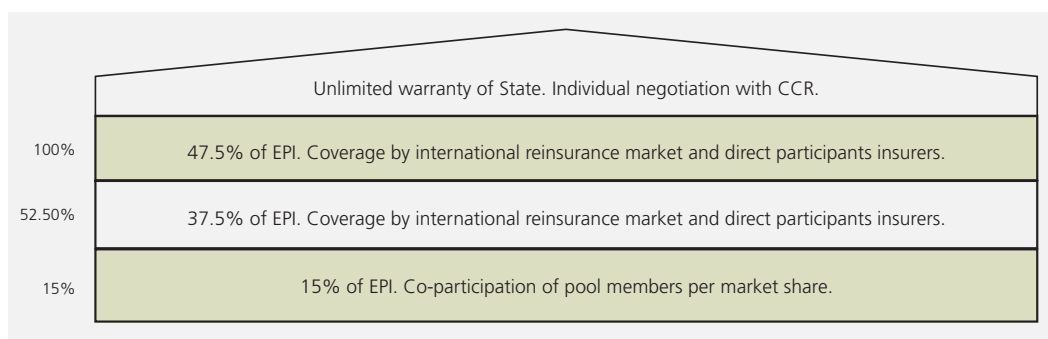
C4 Categories	Original EPI 2006 (€Millions)	Calculation Method	EPI 2006 (€Millions)
Personal Lines	6,100	20%	1,220
Professional Risks	3,515	20%	703
Agricultural Risks (excluding Hail)	680	20%	136
Motor Vehicles (excluding Third Party Liability)	10,500	2%	210
<b>Total</b>	<b>20,795</b>		<b>2,269</b>

Each individual insurance company in France will negotiate directly with CCR for unlimited coverage after a retention applying the above calculation method to their own premium income.

Underneath this threshold reinsurance, companies in France have access to different solutions, and GAREAT Mass Risk Scheme is one of them. Other solutions include:

- > Standalone terrorism coverage
- > Inclusion of terrorism within existing reinsurance contracts (per risk/per event coverage)

#### Mass Risks Terrorism Scheme



The mass risks scheme is based on 100 percent market share.

The ROL for the additional difference in conditions to cover nuclear attack for the first reinsurance layer of mass risks is 1.25 percent. At inception of the treaty, the estimated GAREAT weighted market share is 14.2 percent.

**TERROR COVERAGE AS  
DICTATED BY THE FRENCH  
INSURANCE CODE**

Primary Insurance: Terrorism Risks - Acts of terrorism that result in bodily injury or physical damage occurring within the French Republic are covered under primary insurance policies as dictated by the French Insurance Code.

*Bodily injury (article L.126-1 French Insurance Code):*

Victims of acts of terrorism which occur on territory of the French Republic as well as victims with French nationality while abroad are indemnified according to Art L.422-1 of the French Insurance Code. Indemnity for bodily injury is entirely paid by a State Fund set up for this purpose.

*Old Article L.126 - 2*

Physical damage: (art L.126-2 French Insurance Code - created by Law N° 86-1020 September 9, 1986) All contracts which protect properties shall give coverage for acts of terrorism when committed on the territory of the French Republic.

*New Article L.126 - 2 & L.126 - 3*

“Art. L. 126-2. - Insurance contracts covering Fire damage to property situated on national territory and Hull damage to land motor vehicles entitle the insured to coverage for direct physical damage caused to the insured property by an attack or an act of terrorism, as defined by Articles 421-1 and 421-2 of the Penal Code, sustained on national territory.”

“The compensation of the physical damage, including the decontamination costs, and the reparation of the consequential losses arising out of this damage are covered within the limits of the deductible and ceiling fixed in the contract in respect of the Fire coverage.”

“When it is necessary to decontaminate real estate, the indemnification of the damage, including the decontamination costs, cannot exceed the building's market value or the amount of the sums insured”.

“Moreover, if the insured is covered against Business Interruption, this coverage is extended to damage caused by attacks and acts of terrorism, at the conditions provided for in the contract.”

“The decontamination and containment of debris do not fall within the scope of application of this coverage.”

“All clauses to the contrary are deemed not to exist.”

“With regard to their insurability, a decree by the State Council will determine the exceptions or exclusions which may possibly apply to contracts relating to the Major Risks defined in Article L. 111-6.”

*II - After Article L. 126-2 of the same Code, the following Article L. 126-3 was inserted:*

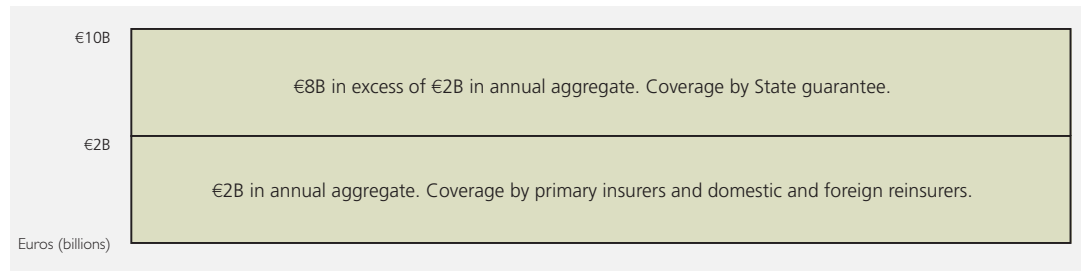
“Art. L. 126-3. - Insurance companies must insert into the insurance contracts mentioned in Article L. 126-2 a clause extending coverage to the damage mentioned in the said article.”.

*III*

1. Point I is applicable to contracts in force with effect from the publication of the present law.
2. For contracts subsequently taken out, Point II becomes effective six months after the publication of the present law whilst, for other contracts, it becomes effective upon conclusion of the first endorsement following expiry of this same period.

## Germany

Historically, for most policies in Germany, terrorism was included but was not compulsory. Following the events of September 11, 2001, the widespread inclusion of terrorism cover highlighted the vulnerability of German insurers to potential terrorist risks. On September 3, 2002, the Gesamtverband der Deutschen Versicherungswirtschaft (GDV, Association of German Insurers) and the German government created EXTREMUS, a German specialist company covering terror-caused property damage. The primary objective of EXTREMUS is to protect the interests of medium-sized companies and industry in Germany through insurance against property and business interruption losses caused by terrorism. The shareholders consist of primary insurers and reinsurers operating in Germany. Total capacity provided on an annual aggregate basis is EUR10 billion. The first EUR2 billion of capacity is placed with approximately 50 domestic and foreign insurers and reinsurers. Beyond the EUR2 billion in capacity provided from the insurance and reinsurance industry, the German government will provide an additional capacity of EUR8 billion.



EXTREMUS provides cover for industrial plants and buildings with sums insured of more than EUR25 million for property damage and business interruption. Only risks located within the territory of the Federal Republic of Germany will be insured. The cover is not compulsory. It can be limited to buildings only, to the contents of buildings or to losses arising from business interruption, provided that there is a relevant original property insurance policy for a sum insured above EUR25 million. The maximum (first loss) aggregate limit of indemnity is EUR1.5 billion per policyholder per year.

## Italy

Currently, there is no terror pool or government involvement in terror coverage. However, the Italian National Insurance Companies Association (ANIA) is considering a possible proposal to the government for the creation of a specific pool.

The majority of insurance policies covering property damage in Italy exclude terrorism risks where the sum insured exceeds EUR50 million. Risks in personal lines and small to medium-sized risks in commercial lines generally fall within this limit. The options open to insurance companies are fairly restricted. If available at all, terrorism cover in excess of EUR50 million is very costly.

## The Netherlands

Prior to the events of September 11, 2001, nearly all lines of business in the Dutch insurance market offered unlimited covers. In the wake of the events in the United States, the Verbond Van Verzekeraars (VvV, Dutch Insurers' Association) and the Dutch Ministry of Finance created a dedicated reinsurance company, called the Nederlandse Herverzekeringsmaatschappij voor Terrorisemeschaden (NHT), which became operational on July 1, 2003.

The NHT was set up as a reinsurance company that entered into a reinsurance contract with each of its individual participants. The NHT pooling arrangement limits the total exposure by the introduction of the NHT clauses to EUR1 billion maximum per event per annum for all lines. In addition, the exposure for property and business interruption risks is limited to EUR75 million per location per annum. It is possible to insure excess amounts elsewhere, however, this happened only on a limited scale. Participating insurers are deemed to cede all their terrorism exposure to the pool. There is no obligation for an insurer to declare individual risks to the pool because the entire participant's portfolio is "pooled."

The total NHT capacity for 2006 is EUR1 billion per annum, according to the distribution below. If the overall loss exceeds the capacity of EUR1 billion, the indemnification to policyholders by NHT participants will be reduced proportionally to the capacity available.

€1,000M	Second Layer	€50M in excess of €950M. Coverage by Dutch government.
€950M	First Layer	€550M in excess of €400M. Allocated on international reinsurance or retrocessional markets.
€400M	Market Retention	€400M. Coverage by primary insurers (NHT participants)

Euros (millions)

The NHT buys retrocession capacity from international reinsurers and the Dutch government. The NHT participants are charged for the reinsurance premium. The yardstick for distributing the reinsurance premium is the market share of the respective NHT member (applying their premium income as part of the total market premium volume).

Approximately 270 insurance companies participate in the NHT, even though participation is not obligatory. The premium volume of the companies participating in the NHT represents 92.5 percent of the market premium volume (excluding health lines). It is anticipated that 100 percent of all health companies in the Netherlands will eventually participate in the NHT. In theory, all primary policies issued by an insurance company that participates in the NHT will fall under revised conditions and clauses. In addition, for policies that were non-cancelable (where no limitation of cover was possible because of the introduction of the NHT clause), the "Noodwet Financieel Verkeer" (Emergency Act Financial Transactions) will apply.

This law enables the government, in order to safeguard continuity of the insurance industry, to reduce the exposure for insurers in case of accumulation of their exposure by virtue of the fact that no risk reduction was possible due to the introduction of the NHT clause.

The scope of coverage is rather unique (especially in comparison with other European Terrorism Pools), as it comprises both life and non-life business, including private healthcare. Beginning January 1, 2006, public healthcare business (to the extent written by the NHT members) will also fall under the scope of NHT, due to the introduction of a basic healthcare coverage for all Dutch citizens. Excluded lines include aviation and aviation liability policies, as well as policies that have taken on terrorism as such. In order to be recognized as an event of terrorism, the NHT applies a franchise deductible of EUR7.5 million per event and per annum.

Norway	<p>Currently, there is no terror pool or government involvement in terror coverage. No terrorism exclusions exist for personal lines, although an aggregate sub-limit per year is common. For commercial and industrial lines, terrorism is generally excluded but with a limited write-back. Workers compensation is regulated by Norwegian Law and covers terrorism. Reinsurance generally follows the original conditions but excludes NBC terrorism.</p>
Portugal	<p>Currently, there is no terror pool or government involvement in terror coverage. Terrorism is usually not included for personal or commercial lines. Policies can be restrictive for large risks according to their exposure to terrorism. For casualty and workers compensation lines, terrorism is generally excluded. Reinsurance policies have an absolute exclusion for large industrial risks and restrictions for smaller industrial and commercial lines through total insured value (TIV) limits and/or Aggregate Annual Limit (AAL).</p>
Spain	<p>In 1941, Spain created the Consorcio de Compensación de Seguros (CCS) as an institution to provide compensation for civil commotion losses arising from the Spanish civil war. Following a series of major catastrophes in the 1940s, the CCS gained permanent legal status as a government-controlled company in 1954. Although CCS is a government-owned entity, it is managed as a private company with a board drawn from both the insurance and government sector.</p> <p>Since 1954, coverage for “extraordinary risks” including natural catastrophes and political risks (including terrorism) has been compulsory. CCS functions as a state insurance facility guaranteeing such cover for these risks. After deregulation in 1990, it became possible to insure the risks privately. Since then, CCS provides cover for those risks that are not covered in the private insurance market, subject to a continuing requirement for all policyholders to pay a CCS premium to maintain a full mutualization of all terrorism risks.</p> <p>Following the events of September 11, 2001, reinsurance capacity became scarce for industrial and commercial risks. CCS broadened its operations to include business interruption due to terrorism, offering reinsurance for terrorist-related business interruption risks, provided the direct insurers were signatories to the agreement. In 2004, business interruption was added to the “extraordinary risk” cover, and the reinsurance agreement with CCS came to an end. With sufficient reserves at its disposal, CCS has the ability to protect and provide economic compensation for extraordinary perils on behalf of the Spanish government on a direct basis or through reinsurance. If claims exceed CCS’s resources, it offers an unlimited state guarantee, which has never gone into effect.</p> <p>The CCS covers personal lines, including personal accident, commercial and industrial lines for properties located in Spain and, in the case of personal accident, terrorists acts that occur in Spanish territory. Also included under commercial and industrial lines are theft, plate glass, machinery breakdown, electronic equipment, civil works, motor vehicles and railtrack vehicles. Casualty lines covered by the CCS do not include terrorism, but cover is available in the private market.</p>
Sweden	<p>Currently, there is no terror pool or government involvement in terror coverage. In the primary insurance market, terrorism generally is not excluded for personal lines. Terrorism is excluded for commercial and industrial lines but with a limited write-back. Reinsurance generally follows the original conditions but excludes NBC terrorism.</p>

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 Switzerland

Although terrorism was not considered a major threat to Switzerland due to its neutral political stance, many private Swiss insurers began to include terrorism exclusion for property risks in 2002. In early 2002, the Schweizer Sachversicherungs-Verband (SVV, Swiss association of property insurers) set up a committee to study domestic terrorism insurance issues. This resulted in a terrorism facility being put into place for all private property insurers licensed to operate in Switzerland.

Since September 2003, insurers can cede all property risks for buildings, contents or business interruption with a sum insured between CHF10 million and CHF100 million (treaty cover) and above CHF100 million (facultative cover) to the terrorism reinsurance facility.

All primary property insurance policies incepting on or after September 1, 2003 with a sum insured in excess of CHF10 million exclude terrorism risks. On property lines with an insured sum less than CHF10 million, there is no exclusion for terrorism and there are no additional premiums for buildings, content or bodily injury. In addition, there is no exclusion for terrorism in workers compensation lines (Accident Insurance Act). For commercial and industrial lines, there is a general exclusion for risk with a total sum insured for less than CHF 10 million. Terrorism cover can be reinstated (even on a "first risk basis") with respect to risks with a sum insured between CHF10 million and CHF100 million, subject to the conditions of the scheme.

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 United Kingdom

Nearly a decade prior to September 11, 2001, the United Kingdom established Pool Reinsurance Company Limited (Pool Re) as a government-backed terrorism reinsurer in response to the restrictions of cover available to UK commercial property insurers. The terrorist events in London, stemming from political turmoil in Northern Ireland in the late 1980s and early 1990s, led to restrictions in terrorism cover. The Pool Re program limited itself to reinsurance cover for property damage and business interruption losses arising from fire and explosion but did not provide cover against other forms of terrorist attack.

The UK government agreed to be the insurer of last resort with an unlimited cover, should the assets accumulated by the program become exhausted. Reinsurance cover available in the United Kingdom from the international reinsurance market was designed to dovetail with the cover provided by Pool Re so that insurers would not face a gap between the market and Pool Re.

Following the events of September 11, 2001, UK insurers felt they were no longer able to provide cover to the same extent. They began to apply exclusions for damages caused by perils other than fire and explosion. Concerns arose over the definition of terrorism and the broadening range of terrorist weapons. The UK Treasury recognized the need to enter into discussions to extend the scope of Pool Re to cover the full range of property damage and consequential loss perils that were being excluded in the market. In 2003, terrorism cover was extended to an "all risks" basis, but it excludes acts of war.

Under the Pool Re program, the reinsurance cover provided to members is subject to a maximum loss retention per event per member (or members forming part of a group) combined with an annual aggregate limit. Members' retention per event/annual aggregate or each year of account is set in advance by Pool Re based on an agreed formula. For 2006, the annual retention limit per event is GBP100 million and GBP200 million per annum. Pool Re makes premium payments to the government when its surplus reaches more than GBP1 billion.

Pool Re membership is optional, and any insurance company authorized to transact property insurance in the UK is eligible to become a member. Under the Pool Re program member insurers are not permitted to select which properties are insured for terrorism cover. Their choice is to have terrorism cover either for all their properties or none at all. Member insurers cannot decline to offer terrorism cover as defined by Pool Re and must cede terrorism insurance to Pool Re in excess of their compulsory retentions.

## Asia Pacific

### Australia

Following the attacks on the World Trade Center in the United States, Australian insurance companies withdrew terrorism cover from most of their policies. As a result, the Australia government passed the Terrorism Insurance Bill (TIB) to establish the framework for the Australian Reinsurance Pool Corporation (ARPC), which would provide insurance cover for terrorism losses.

The government's objective in establishing the pool is to operate the scheme only while terrorism insurance cover is commercially unavailable on reasonable terms. Apart from a retention specified by government regulation, the ARPC provides 100 percent reinsurance of the terrorism risk for insurers. Under the TIB, the ARPC was established for insurers to reinsure their exposure under eligible contracts for losses arising from declared terrorist incidents. In addition, insurers who seek terrorism reinsurance through ARPC will retain part of the risk from a declared terrorist incident. As such, reviews of the scheme and the global terrorism risk reinsurance market will be conducted every two or three years to assess the state of the market and the possible wind-up strategy of the scheme. The scheme's components, including pricing, classes of insurance required to provide terrorism risk cover and level of underwriting available, are deliberately flexible and are not being set by legislation in order to encourage the re-emergence of the commercial market.

The ARPC scheme is composed of three layers. At levels above AUD 10.3 billion, the Ministry of Finance will make a decision whether or not to go pro rata and specify the pro rata rate.

10.3	Third layer	Government indemnity of AUD9 billion.
1.3	Second layer	AUD 1 billion commercial loan.
0.3	First layer	AUD300 million funded by premiums.
AUD (billions)		

Retentions are set at AUD1 million per insurer per annum and AUD10 million across the industry per event. Terrorism insurance cover is compulsory for all insurance classes covered by ARPC (commercial property, infrastructure facilities business interruption and public liability). However, it is not compulsory for insurers to reinsure the risk of eligible terrorism losses through ARPC. The Terrorism Insurance Bill applies to all insurers, including captives, regardless of the country of domicile or location. The scope includes all contracts covering commercial property loss and business interruption risks and, to a limited extent, public liability insurance. The scope also provides coverage for eligible property located in Australia. Terrorism coverage includes chemical and biological attacks but excludes nuclear attacks.

China - Mainland	<p>There are two forms of property insurance - one for foreign investments, and another for domestic insured. In recent years, the form for foreign investment increasingly is being used for domestic policyholders because of its broad coverage. There is an exclusion clause in the foreign form that excludes war and war-like activities, but does not specifically mention terrorism. Insurers generally insert terrorism exclusion clauses in policies, but terrorism cover is available by endorsement.</p>
China - Hong Kong	<p>The Motor Insurance Bureau (MIB) in Hong Kong has established a limited facility of up to HKD200 million (about USD25 million) to provide cover for the claims of innocent third parties in the event of bodily injury caused by a terrorism act through the use of a motor vehicle on the Hong Kong roads. This Hong Kong Motor Terrorist Pool is funded out of the MIB First Fund that already has been established. If this is exhausted, there will be additional levies by the MIB on motorists. In order to retain its motor license in Hong Kong, Lloyd's has executed a facility via a Supplemental Memorandum of Agreement to the original Motor Memorandum of Agreement for the MIB.</p>
India	<p>Following international reinsurers' withdrawal of cover for the risks of terrorism and sabotage after September 11, 2001, private non-life insurance companies pooled their resources to establish a Terrorism Risk Insurance Pool. Terrorism cover through the pool is offered as a buy-back. There is a separate rate for terrorism cover, depending on the type of risk and the sum insured, which is approximately 0.03 percent to 0.05 percent of total sums insured. Aggregate losses to any one location for all Indian insurers will be limited to INR2 billion (about USD45 million), and any loss in excess will involve prorating all recoveries. Excess of loss retrocessional coverage is purchased on the international market. The General Insurance Corporation of India, on behalf of all the non-life insurance companies, manages this pool. As of February 1, 2005, the coverage limits have been raised to INR5 billion (about USD113 million) per event per location.</p>
Japan	<p>The Marine &amp; Fire Insurance Association of Japan has renewed support for the establishment of an industry-wide fund designed to cover losses from terrorist attacks on Japanese soil. "War risks" are commonly excluded in the general policy conditions for ordinary Japanese non-life insurance policies. However, acts of terrorism are generally treated differently, and many Japanese non-life insurance companies cover acts of terrorism. Terrorism is not excluded from most personal property lines. Many non-life insurance companies have set limits on terrorism losses to be covered under the renewed contracts for commercial risks.</p>
Korea	<p>Terrorism is excluded from all primary insurance commercial lines, and reinsurance is not available locally. However, it is possible to buy a standalone terrorism cover if the reinsurance from overseas market is available.</p>
Malaysia	<p>Currently, there is no terror pool or government involvement in terror coverage. The Malaysian government has not enacted terror cover legislation, and it appears unlikely to do so since it is satisfied with the availability of cover on an extension basis.</p> <p>Prior to January 1, 2002, terrorism was covered on an optional basis for both commercial and personal lines. After January 1, 2002, terrorism cover was excluded from all commercial and personal lines policies. Extensions, however, may be granted.</p>

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Philippines	Currently, there is no terror pool or government involvement in terror coverage. Sabotage & Terrorism (S&T) are excluded on all policies. Reinsurance for property lines exclude S&T, except for large industrial risks where special arrangements have been made. S&T has been issued not as a standalone policy, but rather, as an endorsement (if applicable).
Sri Lanka	In 1983, the government established a government-sponsored SCRR/Terrorism Fund to cover strikes, riots, civil commotion and terrorism, after extensive rioting caused overseas reinsurers to withdraw protection for SRCC perils. In 1989, the fund was extended to include the risk of terrorism.
Taiwan	<p>In 2004, an insurance pool was formed to provide terrorism coverage for personal accident business up to a maximum insured amount of NTD2 million per person. This pool is administered by the Non-Life Insurance Association in Taiwan and was created to share terrorism risk for personal accident business among private insurance companies and the Central Reinsurance Corporation in Taiwan. The pool has a cap amount of NTD1 billion. If losses exceed that amount, claims would be paid on a pro rata basis.</p> <p>Coverage for terrorism is available by endorsement to both the residential fire and the basic commercial property policy forms. Tariff rates are 0.02 percent for residential and 0.012 percent for commercial. Due to a lack of reinsurance support, local insurers generally do not offer this coverage to the commercial sector. It may be granted, however, under the residential fire policy. Public demand for the coverage is limited.</p>

## Latin America

Argentina	Currently, there is no terror pool or government involvement in terror coverage. Terrorism is generally excluded for personal and commercial lines.
Brazil	Following the events of September 11, 2001, terrorism risk became a standard exclusion on all property, engineering risks and general liability policies. This included new policies and policies renewing on or after November 9, 2001. The few requests for terrorism coverage are handled on a case-by-case basis. Local insurance carriers generally follow the conditions of coverage approved by IRB Brasil Resseguros S.A.
Chile	Following the events of September 11, 2001, the Chilean Insurers Association approved a general terrorism exclusion clause that can be used by any insurance company and applies to all covers. Terrorism cover has been recently excluded on all primary insurance and reinsurance contracts. Currently, terrorism insurance for this type of risk is done on a facultative basis.
Colombia	<p>Most primary insurers include terrorism cover for all local property/casualty policies, subject to a local deductible. The limit will normally be sub-limited to a maximum permitted by insurers' treaties. Increases above the treaty limit can be handled by a special acceptance request or by purchasing a separate facultative cover, which then sits in excess of the local deductible quota share of the treaty limit.</p> <p>Most local insurers are not putting absolute terrorism exclusions in local policies, as cover has been and continues to be provided only when a separate peril, "AMIT", is purchased. AMIT can be translated as malicious acts by third parties, which traditionally has included actions by guerrilla groups. Reinsurers are now forcing local companies to charge more for AMIT, sublimit the cover and apply higher deductibles. In some lines, such as workers compensation, reinsurance cover for terrorist acts has disappeared. If insurers offer the cover, it would be for their net retention.</p>
Mexico	Currently, there is no terror pool or government involvement in terror coverage, and there are no terrorism exclusions for commercial or personal lines. However, following the events of September 11, 2001, specified terrorist risks like banks, airports and government buildings began to purchase terrorism cover.

## Middle East

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### Bahrain

The Arab War Risks Insurance Syndicate (AWRIS) was established in 1981 to provide war cover during the Iraq-Iran War, with an emphasis on defending the insurance companies situated in the Middle East. Based in Bahrain, AWRIS is a syndicate of approximately 111 member insurance and reinsurance companies from 18 Arab countries. The member companies share the retention with quota share and aggregate excess of loss reinsurance placed in London. AWRIS provides insurance for risks under the categories “War - Cargo,” “Commercial and Aviation Hull,” “Terrorism and Sabotage of Fixed Assets,” “Transported War - Cargo by Road” and “War - Liability.”

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### Israel

Israel has two separate government-backed programs providing property/casualty and life and health insurance. Primary insurance policies will only cover risks for damages not covered by the government-backed funds.

The Victims of Hostile Action (Pensions) Law (“VHAP”), established in 1970, provides compensation for bodily injuries suffered in terrorist attacks, as well as compensation to family members of deceased victims. According to this law, victims of terror attacks and their families (regardless of when they receive Israeli citizenship), are entitled to financial compensation from the State of Israel.

The Property Tax and Compensation Fund Law (“PTCF”), established in 1961, provides compensation for property damage caused by terrorism. Through the fund, the government compensates for any loss of property resulting from a hostile act, at market value. Unlimited cover (actual damage plus costs of mitigating damage) is provided for direct damage to property. For household contents, up to EUR20,000 is covered. Additional coverage for household contents can be purchased at 0.3 percent of the property value, up to a limit of EUR140,000.

## Africa

Namibia	<p>Primary insurance for damage from terrorist acts is provided by the National Special Risks Association (NASRIA). NASRIA was established in October 1987 and has been operational since January 1988, following cancellation of reinsurance facilities previously available to the conventional insurance market for acts of terrorism and politically motivated acts. The Namibian government currently acts as ultimate reinsurer, but the protections to NASRIA's retention are very conservative in efforts to avoid drastic losses to the government. To avoid gaps in cover, NASRIA includes riot, strike and labor disturbances, which were previously excluded from conventional policies.</p>
South Africa	<p>Before 1979, private insurance companies in South Africa offered insurance cover only for riot, strike and malicious damage. Due to an escalation of politically motivated violence and damage in South Africa during the late 1970s, gaps of cover were created from the lack of conventional insurance market cover for politically motivated acts. When the Soweto Riots of 1976 occurred, many insurance companies stated that they would not cover claims stemming from damage due to politically motivated acts. As a consequence of the withdrawal of the conventional cover, the South African Insurance Association (SAIA) created the South African Special Risks Insurance Association (SASRIA) on January 25, 1979 under terms of Section 21 of the Companies Act of South Africa. Its participating members are all the insurance companies that write fire coverage. Participation in SASRIA embodied reinsurance obligations of each member company, and in turn the South African government would act as reinsurer of last resort.</p> <p>The primary objective of SASRIA, a registered insurance company, is to provide insurance cover to protect assets against certain defined events, particularly politically motivated acts including terrorism and political riot. In January 1987, the Finance Act was amended to extend the cover granted under SASRIA to cover all riot, strike and public disorder, regardless of the motivations.</p> <p>As a precondition to receiving cover from SASRIA, an underlying fire policy cover must exist to cover the conventional insurance risks (non-motor). Insureds have an automatic right to cover with SASRIA, with the primary insurer acting as an agent of SASRIA. Insureds must be covered for every insurable risk so that in the event of a claim either the SASRIA policy or the underlying policy can respond thereby eliminating any gaps in cover. There is a loss limit of ZAR300 million per one insured entity per calendar year. Companies with insured values in excess of ZAR300 million are entitled to a loss limit discount which is calculated on a sliding scale. The higher the total asset value, the higher the discount. Such companies are referred to by the SASRIA policy wording as "One Insured" entities. There is a government stop loss for reinsurance of ZAR1 billion in excess of reserves and reinsurances.</p>

## Appendix A

### Aviation Insurance - Third Party Liability

Aviation insurance for terrorism risks is an overriding issue for every country. Due to the requirement of airlines to have third party liability insurance cover to receive landing rights, as well as a condition for leases, the cancellation of aviation insurance could threaten to bring about a complete shutdown of the aviation industry. Following the events of September 11, 2001, in the United States, aviation insurance attracted public attention as aviation insurers worldwide withdrew covers for acts of war, terrorism and related perils. Within days of the events, all aviation insurers issued a seven-day notice of cancellation to reduce third-party war risk liability insurance for air carriers and aircraft operators to a maximum of USD50 million annual aggregate cover. Previously, third-party war risk liability was as high as USD2 billion for any one occurrence. Airports and service providers were not offered third party cover until weeks later, but this offer did not extend to security service providers, which most underwriters still declined to cover.

However, by the time the notices took effect, the major London brokers had placed a third party war market facility led by AIG and GE FRANKONA, their parent companies owned the two biggest aircraft leasing companies, ILFC and GECAS. Support from the aviation market was very limited, and it took the participation of non-aviation capacity to achieve a top limit of USD1 billion aggregate cover for air carriers and service providers. Berkshire Hathaway also provided capacity on a selected basis. Insurers participating in this facility provided cover on a net line basis without reinsurance protection, which was reflected in the high price of cover.

Already struggling to absorb major premium increases on their primary cover, clients found the extra third party cover costs prohibitive and turned to their governments for assistance. Many responded in the short term. The United States, for example, extended its Federal Aviation Administration Insurance Program and offered airlines third party liability cover for twice the airlines pre-September 11, 2001 policy occurrence limit at 10 cents per passenger. In addition, the U.S. Congress enacted legislation to limit an airline's third party liability arising out of an act of terrorism to USD100 million aggregate. In Europe and elsewhere, various government schemes were presented at differing prices and conditions.

More than four-and-a-half years after the events of September 11, 2001, most governments have withdrawn liability war cover to airlines, airport and service providers. The primary aviation market is now prepared to provide USD150 million aggregate third party cover for airlines, although airports and service providers remain in general at USD50 million aggregate. Four-and-a-half years without loss have attracted more capacity to the specialist excess third party market, with insurers offering major airlines non-cancelable third party coverage.

Several countries have adopted their own plans to handle the issue. In the United States, through the provisions of the Homeland Security Act of 2002 and other legislation, the Federal Aviation Administration continues to provide U.S. air carriers with third-party liability insurance as well as passenger, hull and crew war risk. The USD100 million third party liability terrorism cap is still in force. Canada continues to provide the majority of its aviation industry with cost-free cover excess of USD50 million aggregate, although airlines will be required to increase their excess point to USD150 million aggregate when renewing their commercial covers during 2006. Brazil, China, Malaysia, New Zealand, Pakistan, Qatar and Saudi Arabia are some of the other governments still providing third party guarantees in some form or other.

Today, the big issue confronting aviation insurers, clients and governments is the current debate over whether losses to hulls, passengers and third parties arising from weapons of mass destruction (WMD) should be government risks or commercial market risks. The aviation insurance market has been trying to introduce absolute WMD exclusions since June 2003 in line with other property/casualty markets, since a major WMD attack, especially at an airport, could easily produce an accumulation of losses that could ruin the market. The aviation hull war market started to impose WMD exclusions on renewals in May 2005, but the liability exclusions will probably not appear on renewals until late 2006. This delay is part of a settlement to conclude a European Commission investigation into the London aviation insurers' response to September 11, 2001. Insurers have agreed to refer their draft WMD exclusions to the newly created Aviation Insurance Clauses Group (AICG). The AICG is required to consult with the aviation industry on any new aviation clauses and wordings that have an AVN prefix (excluding hull war wordings which have an LSW pre-fix) before they are published for use in order to provide a reasonable balance between the interest of the aviation market and the interest of the clients. This process started on October 3, 2005, and is expected to continue for some months. It is expected to result in AICG producing another version of the WMD exclusions that allows a limited amount of WMD cover.

This change could leave the aviation industry facing tremendous losses if an airport were attacked using this type of weapon. The Marsh Aviation & Aerospace Group is working with the International Air Transport Association, Association of European Airlines, Airports Council International and other industry associations to lobby governments to provide cover excess of the commercial markets. The European Commission has stated at conferences and meetings with the industry that compliance with EU Regulation 785/2004 includes cover for WMD risks. The EU Regulation governs mandatory minimum passenger and third party liability insurance limits applicable to all air carriers and aircraft operators flying in, from or over the European Union. On this basis, government guarantees will have to be provided until a longer-term solution can be put in place.

One possible long-term solution is a convention limiting the industry's liability for acts of war and terrorism, including WMD. Discussions are ongoing at International Civil Aviation Organization in this regard. Following its February meeting, the ICAO Special Group on the Modernization of the Rome Convention of 1952 has just received ICAO Council approval to give priority to a draft Convention on unlawful acts of interference. Further meetings of the Special Group will take place in 2006.

As far as the hull war market is concerned, a new Hull War & Allied Perils Policy form has just been developed by Marsh Aviation & Aerospace in conjunction with key leading hull war underwriters to provide limited WMD cover. The policy is sponsored by the Kiln Syndicate at Lloyd's and has been published as LSW555D. This policy provides cover arising from the hostile use of biological or chemical materials, radioactive contamination or matter, when used as a "dirty bomb," and an electromagnetic pulse, if such use originates on board an aircraft or is delivered by a missile that damages an aircraft in flight. Marsh Aviation & Aerospace placed the first renewal using this LSW555D at the end of March 2006. Since then the wording has received the support of the majority of the hull war underwriters and has quickly become the standard market wording.

Questions may be directed to Ken Coombes of Marsh Aviation & Aerospace (ken.coombes@marsh.com), who led the Marsh team that help deliver this product for the aviation industry.



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