

# PCS Terror Methodology

## PCS global terror loss aggregation platform

To help improve the (re)insurance industry's understanding of global terror risk, facilitate risk transfer and capital management, and support the entry of additional capacity into the terror (re)insurance market, PCS® has developed a new terror risk and catastrophe loss aggregation platform.

## Background

The existing global terror (re)insurance market is small, but there's almost universal agreement that it will grow significantly over the next decade, particularly as we've seen insureds' exposures growing rapidly over the past couple of years. However, some structural changes are needed to facilitate the development of the global terror market. One important development will be the further entry of capital market capacity to provide both reinsurance and retrocessional protection for companies assuming terror insurance risk.

Due to the relatively small size of the terror insurance space, it's currently difficult to obtain relevant data. Since 1992, only 14 events worldwide have had insured losses of at least US\$25 million, with only three above US\$1 billion—one of which was the September 11, 2001, terror attack. However, soft market dynamics have led to higher terror exposures, as companies have let this risk creep into their natural catastrophe programs. If this trend continues, the need for retrocessional protection could become acute. Further, the terror sector is large enough to be able to benefit from improved risk and capital management.

## PCS terror event loss aggregation: How it works

The PCS team will regularly monitor news reports and other publicly available data sources to ascertain when a particular loss event should be investigated. Additionally, PCS will regularly reach out to participating insurers, reinsurers, and other stakeholders for their feedback on loss events that might not reach the public domain. When, through any of these channels, PCS believes an individual loss has occurred that will cause an insurance industry loss of at least US\$25 million, PCS will designate it a PCS Global Terror™ Loss Event and initiate loss aggregation and estimation procedures.

*Event designation:* PCS will publish a bulletin through the ISONet® PCS platform indicating that a PCS Global Terror Loss Event has occurred, generally within 48 hours of identification through publicly available data sources or from companies participating in PCS terror data contribution. This bulletin will be available to all registered users that have opted for access to the terror platform.

*Initial data call:* PCS will engage participating insurers, reinsurers, and other stakeholders to provide an initial view of the loss event, seeking such information as:

- date(s) the event occurred
- (re)insurer's share of the loss (physical damage and business interruption)
- (re)insurer's projected ultimate loss
- (re)insurer's view of the projected industry loss

PCS will then synthesize the loss data and market shares from (re)insurers to arrive at a loss estimate for the insurance industry. Throughout this process, the PCS operations team may engage participating insurers, reinsurers, and other stakeholders for more information and context regarding the loss information they provided.

*Initial PCS Global Terror Loss Event estimate:* Since it can take time for large terror risk losses to develop, PCS plans to publish its first PCS Global Terror Loss Event estimate four weeks after announcing the designation of the event. Every event designated will be subject to a resurvey process, meaning that the first estimate will never be the last.

*Subsequent data calls:* Until PCS has arrived at a final industry loss estimate, PCS will engage participating insurers, reinsurers, and other stakeholders quarterly to refresh the information provided in the first data call until PCS has reached a final industry loss estimate.

*Subsequent resurvey estimates:* PCS will revisit all open PCS Global Terror Loss Events every quarter until the team believes it has arrived at a stable estimate that it can call final. The type of data requested by PCS does not change, although the estimate is generally expected to develop based on the nature of the information that becomes available throughout the claim life cycle. PCS will publish resurveys quarterly for open events, even if there's no change to the underlying data.

*Final estimate:* When the PCS operations team believes it has arrived at a stable estimate, it will declare a final estimate. Three things must happen for this to occur:

- The estimate and most underlying data must not have changed for two consecutive quarters.
- PCS has confirmed that there are no outstanding issues that could significantly change the estimate (such as outstanding class action litigation).
- Most data participation companies agree that the loss estimate is unlikely to change materially.

PCS strives to balance speed and accuracy. As a result, PCS may accept an early conclusion that may not capture smaller, later changes to an estimate in order to get a final number to market to facilitate streamlined risk-transfer transactions for the terror insurance market as a whole.

*Post-event activity:* Following the closure of an event, the PCS operations team will review its tracking spreadsheet of individuals involved in creating the PCS Global Terror Loss Event estimate and provide post-event document destruction instructions, in accordance with existing PCS policy. Verisk internal audit will then verify that all relevant documents have been destroyed in accordance with company policy.

All that will remain of the loss estimation will be the industrywide data contained in each of the bulletins—although PCS will maintain a list of companies it should call for data contribution throughout the loss aggregation process. No other information from a participating company will be retained.

*What it will look like:* The bulletins published for each PCS Global Terror Loss Event will include:

- date(s) the event occurred
- insurance industry loss estimate
- narrative explaining the nature of the event based on information from publicly available sources and insights from participating (re)insurers
- supplemental terror event information whenever available from Verisk Maplecroft, such as fatality and casualty counts

The preliminary bulletin, indicating the designation of a PCS Global Terror Loss Event, will not include industry loss information. The final bulletin will be labeled “Final,” as is the case with current PCS procedure.

## Appendix A: Historical loss aggregation

To launch the PCS Global Terror loss aggregation program, PCS amassed historical loss information for 14 events dating back to 1992. The most recent event came in 2016: a TRY500 million industry loss from terror in southeastern Turkey. However, historical losses of at least US\$25 million are infrequent in the terror space.

Year	Number of events	Aggregate loss
2016	2	\$457,300,000
2013	1	\$64,828,329
2008	1	\$102,630,000
2006	1	\$80,000,000
2005	1	\$64,000,000
2001	1	\$18,778,500,000
1996	2	\$1,371,000,000
1995	1	\$125,000,000
1993	3	\$2,142,590,000
1992	1	\$704,000,000

Source: PCS Global Terror

Events in the PCS database include attacks in Mumbai, London, Brussels, Madrid, and New York. Some loss estimates have come from the catastrophe process for the United States and Turkey, while the rest use the PCS specialty lines methodology.

## PCS Global Terror insured loss sample events


Event Name	Year	Aggregate loss	Status
WTC garage bombing	1993	United States	Closed
Docklands IRA bombing	1996	United Kingdom	Closed
Mumbai hotels and Jewish Center	2008	India	Closed
Brussels Airport	2016	Belgium	Open
SE Turkey 2016	2016	Turkey	Open


Source: PCS Global Terror

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