EIC0964

Written evidence submitted by Pool Reinsurance

Introduction

Pool Re is the UK's terrorism reinsurer, established in 1993, in response to a failure in the insurance market after untenable losses and uncertainty caused by the Provisional IRA's devastating bombings in financial centres in London and Manchester during The Troubles. As a result of their attacks, insurance cover was withdrawn for commercial property, meaning that the economy, industry, and the taxpayer were highly vulnerable to future attacks.

Our purpose is to enable the UK insurance market to underwrite terrorism risk to commercial property, and to insulate the taxpayer from financial losses arising from acts of terrorism – something we have done successfully to date, never calling on the Government's guarantee, which underpins our model.

Similarly to the terrorist attacks in the early 1990s, Covid-19 has exposed the beginnings of a market failure in insurance, which could have significant ramifications for the provision of insurance in the coming years. We believe that, similar to the establishment of Pool Re, the Government will at some point need to address this market failure by applying the lessons learnt from our foundation.

The impact of the pandemic on insurance

The impact of Covid-19 on the insurance industry and market is likely to be felt for years to come. Systemic risks such as pandemics are not traditionally included in standard business interruption cover, and uncertainty over the applicability of different policies has led to legal challenges which have hampered businesses' ability to access pay-outs in a timely manner.

However, while uncertainty over whether business interruption due to Covid-19 is covered by existing insurance policies, it is increasingly clear that any *future* policies will not include business interruption cover due to a similar pandemic. This is destabilising both for businesses, who cannot be sure of their ability to withstand a future black swan event, but also for Government, which ultimately (as has been the case with Covid-19) will be forced to become an insurer of last resort.

The impact on the availability of insurance is already being felt. Glastonbury Festival, one of the jewels in the crown of the UK's cultural and music scenes, has once again had to cancel well in advance. Despite the UK's vaccination programme continuing at pace offering the possibility that large-scale events could be possible by Summer 2021, the lack of insurance on offer to the festival has meant early cancellation was the only option open to organisers.

As well as insurance becoming more difficult to acquire, insurers are being forced to push through price rises across policies, due to the severity of financial losses.

It is clear then, that a new model for insuring against systemic risks, such as pandemics, needs to be established to avoid businesses being left exposed to interruption, and to transfer risk from the taxpayer to the private sector.

The Pool Re example

Pool Re is a leading global example of disaster management and reinsurance. Our model is widely regarded to be the best of its kind in the world.

We were established in conjunction with the UK government and have since grown the private market for terrorism from £30 million to £100 million - whilst protecting assets worth over £2.2 trillion.

Businesses concerned about the costs of a terror attack buy cover from their insurer as usual, but the insurers then pass Pool Re the portion of the risk they are not willing or able to hold themselves, to "reinsure". By investing insurers' contributions in a 'pool', we have been able to build up an emergency fund over the past 27 years, £6.6bn of which can be used to support the end-customer, affected businesses, in the event of a terror attack.

We pay HMT £200 million per year for their unlimited guarantee thereby monetising their contingent liability - but we have never needed to call upon the Government for what is in effect a loan facility which underpins our Scheme and which would be repaid from future premiums were it ever to be called upon.

This model has allowed us to pay claims in excess of £1.25 billion in relation to 17 terrorist events since our foundation.

Lessons for pandemic, and other systemic risks, cover

We believe the innovative approach which led to Pool Re's foundation in the early 1990s can, and should, be replicated now to provide a solution for insuring both pandemics and indeed wider systemic risks where the insurance market's capacity alone, would be insufficient. There is almost unanimous support from within the sector to partner with the Government to enable some level of pandemic risk retention and mitigation by commercial insurers, and the Bank of England, the PRA, the FCA and the CBI have also impressed upon Government the need to engage with insurers on this area of clear market failure.

Enabling competitive, innovative solutions to otherwise commercially uninsurable risks will help to ensure wider societal resilience, supported by the insurance industry's architecture.

There are some principles of the Pool Re model which should be applied to a solution:

- It must help to protect insurers from potential future risk whilst enabling them to fulfil the needs of their customers in a way that is affordable to them and sustainable to the industry at large.
- It can only be viable with government partnership, otherwise the risk reflective price would be unaffordable for policy holders.
- Government is the insurer of last resort, but risk is more sustainable. Money is collected and replenished by future premiums, which allows a substantial pot to be built up over time. This distances the government from risk and helps to reduce the impact of a systemic disaster, like a pandemic, on the economy.
- The risk should be shared between the industry, the government and the customer with the government holding only the uninsurable portion of the risk – the tail

Our main conviction is that an integrated public-private structure, modelled on the Pool Re template, for managing disaster risks would allow the government to monetise the full spectrum of its liabilities and guarantees as it does for terrorism. Moreover, the state would be in a position to realise the full potential of the risk mitigation expertise of the insurance industry. Further, enabling competitive, innovative commercial markets to develop for risks which are otherwise commercially uninsurable would align social and private sector objectives, and integrate the insurance industry firmly into the national resilience and disaster risk-financing architecture.

Pool Re has shown that risks that are presumed uninsurable do not have to be. But to replicate this solution, government and industry must share both risk and knowledge, applying the lessons of Pool Re to emerging systemic risks. Industry and government must work together to forge such a proposition that secures increased national resilience to systemic events. Not doing so risks us only ever fighting the last war - at huge detriment to businesses, society and the economy.

January 2021