

Pool Re

Aggregate Excess of Loss Treaty Scheme Guide

This Scheme Guide is effective from
1 April 2025



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Section 1 – Introduction

Pool Reinsurance Company Ltd, herein known as “Pool Re”, was established in 1993 to provide reinsurance for “Acts of Terrorism” insurance underwritten by its Members.

1.1 Overview

This document (the “**Scheme Guide**”) provides guidance to the Members of Pool Re on the operation of Pool Re’s catastrophe excess of loss treaty scheme (the “**Scheme**”). This document is intended to provide guidance for both the Class A and Class B Head of Cover.

This document, which will be amended from time to time, is for guidance only and does not contain any legally binding provisions. The legally binding terms and conditions of the Scheme are set out in Pool Re’s Aggregate Excess of Loss Treaty Reinsurance Agreement (including the Treaty Schedule) (the “**Reinsurance Agreement**”).

Article 11 of the Reinsurance Agreement contains a warranty that procures that the obligations undertaken by a Member are also observed by any Connected Person of the Member, including all subsidiary and parent companies, wherever domiciled.

Unless otherwise defined all capitalised terms within this document shall have the meaning as defined in Schedule 1 of the Reinsurance Agreement.

In basic terms, the Scheme is designed to reinsure commercial property, (the effect being to exclude household risks) providing protection against losses as a result of:

1. loss or damage to Property, the cause of which is an Act of Terrorism (the Class A Head of Cover); and
2. loss of business, the cause of which is the denial of access or the loss of attraction to the premises, resulting from an Act of Terrorism (the Class B Head of Cover).

The Reinsurance cover does not apply to bodily injury.

The Class A Head of Cover do not apply to losses not involving physical damage to Property. Conversely, the Class B Head of Cover does not apply to losses involving physical damage to Property.

1.2 Class A and Class B Head of Cover

The Scheme provides reinsurance for:

1. The Class A Head of Cover, being any of the following four types of direct insurance cover:
 - (a) Buildings and Completed Structures;
 - (b) Other property (including contents, engineering, contractors and computers);
 - (c) Business Interruption; and
 - (d) Book Debts; and
2. The Class B Head of Cover, being direct insurance for Non-Damage Business Interruption (“**NDBI**”).

Members have a choice to sign up to Class A membership only, Class B membership only, or both.

This section explains the extent of the NDBI cover available under the Scheme pursuant to the terms of the Reinsurance Agreement:

1.2.1 Non Damage Denial of Access

NDBI as a result of interruption or interference with the business of the Original Insured in consequence of the access to, exit from or use of any premises occupied by an Original Insured, being impaired or prevented due to the actions of the police, competent authority or any other statutory authority following an Act of Terrorism.

1.2.2 Non Damage Loss of Attraction

NDBI as a result of interruption or interference with the business of the Original Insured in consequence of an Act of Terrorism in the vicinity of (but in no event further than one mile from) any premises within the Territory occupied by an Original Insured which results in the business carried on by an Original Insured at such premises having a diminished attraction to customers and solely in consequence thereof, an identifiable reduction in the business of an Original Insured, but in no event shall the Maximum Indemnity Period exceed three months.

Murder / suicide, unlawful occupation and loss as a result of a release of any disease pathogen would also be included within the scope of reinsurance protection should the police, competent authority or other statutory authority prevent access, consequent upon an act certified as an Act of Terrorism. Threat/fear and bomb hoax, however, remain outside the cover offered by Pool Re because these events are unable to be certified as an Act of Terrorism given that an Act of Terrorism would not have occurred, just the mere threat of one.

Section 2 – A Member’s general obligations under the Scheme

This section explains, with reference to the Reinsurance Agreement, a Member’s general responsibilities when participating in the Scheme.

2.1 The Reinsurance Agreement

The Reinsurance Agreement provides treaty based reinsurance cover for a 12 month period commencing on 1st April each year. Cover is provided on a losses occurring basis i.e. all relevant losses arising from an Act of Terrorism that "commences" during the Underwriting Period will fall for cover under the Reinsurance Agreement.

2.2 Provision of cover for an Act of Terrorism

In accordance with Article 11.1 of the Reinsurance Agreement, where eligible for cession to Pool Re, Members must offer to provide quotations for insurance against an Act of Terrorism within the Territory for any Class A Head of Cover or Class B Head of Cover when requested to do so by any person already insured, or requesting insurance, for General Cover. Cover cannot be backdated unless agreed with Pool Re. The Reinsurance Agreement provides cover for Covered Loss in respect of an Act of Terrorism within the Territory for any Class A Head of Cover or the Class B Head of Cover. The only exceptions are those expressly set out under the Excluded Losses definition within the Reinsurance Agreement.

Cover is included for a Non-Conventional Act of Terrorism (an Act of Terrorism by means of Nuclear and Radiological, Chemical, Biological and/or Cyber Terrorism), albeit that different Retentions will apply (see Member Retentions at sub-section 3.7). Cover for damage caused by remote digital interference, applies to the Class A Head of Cover but not the Class B Head of Cover. Please see the Proviso to Exclusion (c) in the definition of Excluded Losses in Schedule 1 of the Reinsurance Agreement, which does not apply to the Class B Head of Cover.

Direct insurance against an Act of Terrorism within the Territory in respect of any Class A Head of Cover or Class B Head of Cover must be written on the same terms and conditions, including limits, as the General Cover.

As set out at Article 11 of the Reinsurance Agreement, a Member must not provide direct insurance against an Act of Terrorism within the Territory in respect of any Class A Head of Cover or Class B Head of Cover in respect of Property not insured by the General Cover to which it attaches. Under Article 11 of the Reinsurance Agreement, Members warrant to reinsure with Pool Re such part(s) of all eligible contracts of direct insurance under which the Member provides insurance against an Act of Terrorism within the Territory in respect of the Class A Head of Cover and the Class B Head of Cover. This is known as the 'cede all business' principle.

2.3 Eligibility Criteria

Any General Cover policy providing direct insurance cover for fire or explosion, as a minimum, in respect of the Class A Head of Cover or the Class B Head of Cover – for a term not exceeding 12 months - is a “Relevant Instrument” as defined in Article 7 of the Reinsurance Agreement and falls

within the scope of the Scheme. This applies regardless of whether the General Cover responds to fire and/or explosion only or provides cover for other perils in addition.

For guidance on determining what Property and/or premises and what type of Policyholder may be reinsured under the Scheme, please see Section 3 – General Technical (Underwriting).

2.4 Territory, Channel Islands, Isle of Man, Northern Ireland, Channel Tunnel

Pursuant to Article 1 of the Reinsurance Agreement the Scheme only provides cover for Covered Loss. Covered Loss is defined pursuant to Schedule 1 and Article 6.1 of the Reinsurance Agreement and is in respect of Property and premises located within the Territory, as defined in Schedule 1 of the Reinsurance Agreement as principally being the land mass of England, Wales and Scotland.

Where a General Cover policy covers risks both within the Territory and outwith, the element covering the risks within the Territory (including any overseas interdependency exposure triggered by (1) damage to or the destruction of Property (for the Class A Head of Cover) and/or (2) losses arising from NDBI in respect of premises (for the Class B Head of Cover) within the Territory) should be ceded to Pool Re.

No reinsurance cover is available through Pool Re for Property and premises located in the Channel Islands, Isle of Man or Northern Ireland.

The Scheme will respond in respect of (1) damage to or the destruction of Property (for the Class A Head of Loss) and (2) losses arising from NDBI in respect of premises (for the Class B Head of Loss), within the Channel Tunnel up to the frontier with the Republic of France, as set by the Treaty of Canterbury. Pool Re will not reinsure damage to or the destruction of Property, or any business interruption losses in respect of premises, within the Republic of France.

2.5 Reinsurance Assumed not Protected by Pool Re

No provision in the Reinsurance Agreement shall be construed as being applicable to reinsurance business of any kind underwritten by a Member (inwards reinsurance, including inwards co-reinsurance) if it falls within the definition of Excluded Losses as set out in the Reinsurance Agreement. In particular, risks are not eligible for cession if they are stamped by Lloyd's Insurance Company S.A.

2.6 Monetary Limits

Pursuant to 7.1(b) and 7.3 of the Reinsurance Agreement, Members should note that the monetary extent (including but not limited to, sums insured, limits of indemnity, deductibles retained by the Original Insured) of the cover for an Act of Terrorism within the Territory in respect of any Class A Head of Cover or Class B Head of Cover must be the same as that of the General Cover.

For example:

1. a General Cover subject to a £50 million loss limit will result in cover for an Act of Terrorism in respect of any Class A Head of Cover subject to a £50 million loss limit.
2. a General Cover subject to a £1 million loss for non damage business interruption will result in the cover for an Act of Terrorism in respect of the Class B Head of Cover of also being subject to a £1m loss limit.

2.7 Policies in excess of 12 months

Pursuant to Article 7.2 of the Reinsurance Agreement, direct insurance against an Act of Terrorism in respect of any Class A Head of Cover or Class B Head of Cover may only be issued for a period not exceeding 12 months. Where the General Cover, to which the cover for an Act of Terrorism is attached, is for a longer period, each subsequent period is deemed to constitute a separate contract of insurance incepting on the anniversary date of the original date of inception of the General Cover.

2.8 Members' obligations

As set out under Article 27 of the Reinsurance Agreement, a Member's obligation to comply with the Reinsurance Agreement cannot be delegated to a third party. Specifically, the Member confirms in the Reinsurance Agreement that it understands and agrees that:

1. its responsibilities cannot be delegated;
2. its obligation to comply with the requirements of the Reinsurance Agreement cannot be delegated to a third party; and
3. lineslip and binder declarations to be reinsured by Pool Re shall use the same underwriting principles and practices set out in the Reinsurance Agreement, as if they were individual risks.

2.9 Member Procedures, Record Retention and Annual Exposure Return

The requirement for Members' internal audit, systems and controls are set out at Article 11.1(d) of the Reinsurance Agreement. Members must apply no lower standards of internal audit, systems and controls to the issue of cover, adjustment of claims and documentation generally than they apply to other aspects of their business. Such systems and controls must be at least broadly comparable with the standards laid down in the UK by the Prudential Regulation Authority and the Financial Conduct Authority.

The requirements for Members' retention of records are set out at Article 15.2 of the Reinsurance Agreement. Members shall retain all records in relation to direct insurance that it writes for at least the minimum legal requirement as set out by the relevant regulatory bodies and for no less than three years, from the date of expiry of the direct insurance, and for at least two years after the settlement and closure of a claim. These records should include, where a Permitted Departure is made, the written rationale for the Permitted Departure – see sub-section 3.3 below.

2.10 Reinsurance effected by Member to protect their Retention

A Member may effect, with a reinsurer other than Pool Re, any reinsurance cover it feels necessary to protect its exposure in relation to its Retention.

2.11 Reinsurance cover offered by the Member

Reinsurance contracts are specifically excluded from cession to Pool Re. However, Article 11.1(c)(ii) of the Reinsurance Agreement provides that a Member is allowed to provide treaty reinsurance to another party provided it is a proper reinsurance transaction in which the cedant retains for its own account a "significant proportion" of such risk. This means that pure "fronting" arrangements will not be permitted.

2.12 Incidental Terrorism Exposure

There may be limited circumstances in which direct insurance for terrorism cover is provided in a different manner from that permitted under the Scheme (e.g. it is not aligned to the property cover or is written on a stand-alone basis) but will not be in breach. Please refer to Article 11.9(c) of the Reinsurance Agreement and the definition of Incidental Terrorism Exposure Policy in Schedule 1 of the Reinsurance Agreement for details of this exception. Where a Member is relying on this provision, it should keep records in compliance with Article 15.2 of the Reinsurance Agreement as these may be requested by Pool Re.

Each Member should retain, at an appropriately senior level, a written record of any agreement received from Pool Re's Chief Underwriting Officer to depart from the 'cede all business' principle.

2.13 Lloyd's Managing Agents and Managing General Agents

For ease of dealing with Lloyd's protocols, with effect from 1 January 2017, the membership of Pool Re transferred from the individual Lloyd's syndicate to their Managing Agent. Lloyd's managing agents may manage more than one syndicate and whilst the 'cede-all business' principle still applies to the individual Lloyd's syndicate; it does not extend to the managing agent in their business of

managing syndicates. There is no requirement for all syndicates under the control of a single Lloyd's managing agent to become Members of Pool Re.

In the same manner, Managing General Agents ("MGAs") may have several binder/coverholder agreements. It is accepted that the capacity provided on a binder may be a mix of Members and non-Members, the 'cede-all business' principle does not extend to requiring the MGA to only place business with Members of Pool Re.

2.14 Insurance Act 2015

In accordance with Article 28 of the Reinsurance Agreement, Pool Re supports the remedies available to the Member under the Insurance Act 2015, save that Pool Re will have no liability to pay damages to a Member (i.e. section 13A of the Insurance Act 2015 will not apply) unless Pool Re has acted deliberately or recklessly. HM Treasury's actions are outside of Pool Re's control and will not constitute a deliberate or reckless failure on the part of Pool Re.

2.15 Electronic Signatures

Pool Re will accept electronic signatures which are compliant with relevant UK law on electronic signatures pursuant to UK eIDAS regulation.

2.16 Insurance Premium Tax

Insurance Premium Tax is not applicable to the Premium.

2.17 Member Groups

Members who are part of a group have a choice at inception and at renewal to remain a group Member, or to contract on an individual membership basis to be part of the Scheme. The Member must advise Pool Re at the outset of discussions, if they wish to change previously agreed arrangements.

Section 3 – General Technical (Underwriting)

This section explores some of the fundamental principles and considerations applicable to the Scheme across all accounts from an underwriting perspective. Whilst this section may be considered to be primarily relevant for the Class A Head of Cover, the fundamental underwriting principles and considerations are also relevant to the Class B Head of Cover. Please note Section 1 of Appendix 1 provides for certain additional examples of potentially relevant underwriting considerations that may be applicable to the Scheme.

It is vital for the effective operation of the Scheme that the Members provide to Pool Re exposure information that is accurate and complete.

3.1 Status of the Original Insured

The Scheme is restricted to reinsurance of contracts of general insurance, not usually insured in the name of an individual. Examples of such contracts are those insured in the name of a limited company, LLP, Plc or other such corporate entity, or a public body such as a local authority.

Contracts insured in an individual's name are also eligible for cession if the property is of sole commercial use. If the property is of mixed use and is insured in an individual's name, it may also be eligible for cession if it meets the criteria noted in sub-section 3.2.4 below.

3.2 Property Covered by the Scheme

Property is defined within Schedule 1 of the Reinsurance Agreement. For further guidance on determining what can be reinsured by Pool Re, please see the sub-sections below. It should be noted that where the eligibility criteria are met, cession to Pool Re is mandatory, not optional. Any Property that is ceded which does not meet the eligibility criteria is not protected under the Scheme.

3.2.1 Residential Usage

Risks occupied as blocks of flats or private dwelling houses are eligible for cession if they are insured under the same contract of direct insurance as the remainder of the building which is not a private residence or the Original Insured is an Eligible Original Insured as defined in the Reinsurance Agreement.

3.2.2 Incorporated corporate entities

Limited company, LLP, Plc or other such corporate entity or a public body such as a local authority are Eligible Original Insureds under the Reinsurance Agreement. If the Original Insured is a sole trader, partnership or Trustee(s) the risk may still be eligible for cession if the subject property falls within the scope of the definition of Property under the Reinsurance Agreement.

3.2.3 Flats and houses insured in the name of a sole trader or trustee

Where the Original Insured is a Trustee or body of Trustees that holds blocks of flats and/or private dwelling houses under a trust, or a person who owns blocks of flats and/or private dwelling houses in the business of a sole trader, the risk is eligible for cession to the Pool because, subject to the proviso below, Trustees and sole traders are not deemed to be individuals.

If however, the property is a private dwelling house or a self-contained unit insured as part of a block of units (i.e. a block of flats), and is occupied as a private residence by any of the trustee(s) or any beneficiary of the trust, or sole trader(s), it will be considered that the property is insured in the name of the individual irrespective of whether the policy form is commercial or otherwise.

3.2.4 Mixed Residential & Commercial usage

Where property is partially occupied as a private residence and is insured in the name of an individual, reinsurance protection is only available when the commercially occupied proportion of the property exceeds 20%, either by area or on the basis of the number of days that the Property is open to public.

Non-exhaustive examples of risks that fall under this consideration are: Guest Houses, B&B Accommodation, Farms, holiday villas/caravans, country estates, stately homes/mansions and the like.

3.2.5 Sole Traders

It is the Member's responsibility to determine whether the Original Insured should be treated as a 'sole trader' or as an individual. Pool Re is of the view that 'sole trader' is a commonly recognised type of business and guidance can be sought from www.gov.uk.

Some Members have encountered difficulty in determining whether a property owner is to be treated as a sole trader. To assist in the determination process, the Member may also wish to consider (in the absence of being registered as a sole trader with HMRC) whether the Original Insured has made an active decision to become a landlord for which it receives income and is taxed as a business. By contrast, an individual who becomes an incidental landlord by way of inheriting a property or by way of having lived in the house but is unable to sell it, so rents it out instead, is unlikely to be recognised as a sole trader.

The following scenario is provided by way of example:

- If the individual is earning money as a source of second income from renting residential buy-to-let properties then (unless they are recognised as a sole trader) they would be deemed to be an individual, and the risk would not be eligible for cession.

3.2.6 Partnerships

In the same manner, it is for the Member to determine whether two or more individuals setting up a partnership, are doing so for the purpose of a business. In these instances, the risks are eligible for cession.

3.2.7 Trusts, Trustees, Beneficiaries and Executors

Where a private dwelling or other property capable of cession, such as a fine art collection, is the subject of a trust or any kind, or of an executorship of a will, the risk will be eligible for cession unless some part of it is:

1. occupied by a beneficiary or a trustee of the trust in question, or by a beneficiary or an executor of the will in question; or
2. located in premises owned by any such person,

in which case the criteria set out in Section 2 must be satisfied if the risk is to be eligible for cession.

It should be noted that the requirement to cede to Pool Re does not extend to include those private dwellings that become unoccupied and are insured in the household market where responsibility for the insurance has passed to an executor and the policy continues to be insured in the Household/Personal Lines account. This situation is somewhat different to a body of trustees who will insure a property for a continuous term.

3.2.8 Adverse Selection/Non-Selection / All or Nothing Principle

Members shall ensure that there is no 'selection against' Pool Re. This 'Adverse Selection' principle is explained at Article 11.9 and Schedule 3 of the Reinsurance Agreement. In summary, it means that where an Original Insured obtains insurance against Acts of Terrorism Cover under a Relevant Instrument, it must do so in respect of all Property / premises which are so eligible, save in respect of the Permitted Departures.

Pursuant to Article 11.9(b) of the Reinsurance Agreement, where a Member becomes aware that an Original Insured has not complied with the Adverse Selection principle and has no intention of doing so, the Member must ensure that terrorism cover is discontinued as soon as practicable. Failure by the Original Insured to engage with requests for information seeking to establish that the Original Insured is in compliance with the Adverse Selection principle is not in itself evidence of a breach of the principle. Members must, however, be able to evidence that they are using their best endeavours to try to comply with it; evidence in this regard would, for example, be Members' reasonable written requests to the Original Insured for such confirmation. Pool Re would not expect a Member to renew a Relevant Instrument with an Original Insured where (1) it does not have clear evidence that the Member has taken steps to establish that the Original Insured is in compliance with the Adverse Selection principle; and/or (2) there are red flags and/or other indications that the Original Insured is not in compliance with the Adverse Selection principle.

3.3 Departures from the Principle

The Permitted Departures from the Adverse Selection/Non-Selection Principle are set out at sub-section 2 of Schedule 3 of the Reinsurance Agreement. It is advisable that where a Permitted Departure is applicable, that it be reflected within the policy documentation, and records kept clarifying which contracts/assets are insured and which are not and that a record of the rationale is maintained in accordance with Article 15.2 of the Reinsurance Agreement.

It will not be considered a breach of the Adverse Selection principle if a Member chooses only to reinsure the Class B Head of Cover but not a Class A Head of Cover (or vice versa). Nor would it be considered to be a breach of the Adverse Selection principle if an Original Insured elects to insure terrorism cover for Business Interruption cover or Book Debts cover elsewhere than with a Member of Pool Re.

3.3.1 Insolvency Practitioners and Receivers

An Insolvency Practitioner (including a person appropriately authorised under the Insolvency Act 1986 and acting in relation to a company in a capacity such as a monitor, liquidator, provisional liquidator, administrator, administrative receiver, or supervisor of a company voluntary arrangement) or a Receiver (including a party appointed by a secured creditor under a security agreement or by the Court on behalf of a secured creditor) will not be bound by the Adverse Selection Principle in respect of all individual programmes that they place.

For example, if a Receiver places cover for ten independent companies (in receivership) then the Receiver can choose if cover under the Scheme is to be arranged on each. However, the individual programmes in receivership placed with Pool Re are bound by the Adverse Selection Principle, i.e. if an individual company in receivership obtains insurance against Acts of Terrorism Cover under a Relevant Instrument, it must do so in respect of all Property / premises which are so eligible, save in respect of the Permitted Departures.

3.4 Material Errors and Omissions and Material Change

3.4.1 Material Errors or Omissions

Under Article 14.1 of the Reinsurance Agreement, Members are required to report to Pool Re any material errors or omissions made in connection with the Reinsurance Agreement, including but not limited to, in respect of the provision of information and records to the Reinsurer prior to the Underwriting Period.

With reference to exposure information, a material error or omission would include, but is not limited to, a situation in which, after inception of the Reinsurance Agreement, a Member discovers (or is discovered to have) under/over stated the exposure used to rate the Reinsurance Agreement by more than 25% of the correct value.

In the event that there was a material error in the information provided by a Member prior to the Underwriting Period, Pool Re will be entitled to charge the Member an additional or reduced Premium and/or increase or decrease one or both of the Minimum Retention(s) to reflect the error(s) and/or omission(s).

3.4.2 Material change

Under Article 14.3 of the Reinsurance Agreement, Members are required to notify Pool Re promptly of any material change (or proposed material change) in any information provided in relation to its risk exposure, authorisation, legal form and status, business, ownership and jurisdiction of incorporation or residence.

For the purposes of Article 14.3, a material change in risk exposure, includes, but is not limited to, a variation of more than 25% between a Member's declared exposure and its book of business. For example, if after inception of the Reinsurance Agreement, a Member's book of business changes (e.g. a merger with or acquisition of another Member) such that its exposure under the Reinsurance Agreement is 25% higher or lower than the exposure figure used to rate their contract, this could comprise a material change.

In the event of a material change in a Member's risk exposure before or during the Underwriting Period, Pool Re will be entitled to charge the Member an additional or reduced Premium and/or increase or decrease one or both of the Minimum Retention(s) to reflect those material changes.

3.4.3 Mid-term adjustments

The following mid-term exposure changes will likely engage Article 14.4 and should always be notified pursuant to Article 14.3 of the Reinsurance Agreement if for example the 25% threshold is met. Under Article 14.4 of the Reinsurance Agreement, Pool Re will, at its discretion, be able to charge an additional or reduced Premium and/or increase or decrease one or both of the Minimum Retention(s) to reflect the material change in the Member's risk profile. The following mid-term exposure changes will likely engage Article 14.4 and should always be notified pursuant to Article 14.3 of the Reinsurance Agreement:

1. Acquisition or disposal of/to a Member/Non-Member;
2. Acquisition or disposal of a material book of business;
3. Significant growth/reduction not advised in renewal questionnaire; and
4. Error or omission when preparing the Annual Exposure Return ("AER").

3.4.4 Changes to Premium and/or Minimum Retentions

Where Pool Re makes changes to the Minimum Retentions and/or Premium pursuant to Article 14 of the Reinsurance Agreement due to material errors and/or omissions and/or a material change, Pool Re will, to the extent reasonably practicable, calculate the revised Minimum Retentions and/or Premium in the same way as the original Minimum Retentions and/or Premium.

On a variation under Article 14 of the Reinsurance Agreement, the Member will be entitled to terminate the Reinsurance Agreement in accordance with Article 17 of the Reinsurance Agreement but will remain liable to pay the increased (or decreased) Premium and will remain subject to the revised Retentions.

3.5 Policy Form

If a new product is developed for market, it is the Member's responsibility to consider whether such products are eligible for cession to Pool Re, the list of excluded policies being shown at sub-section (b) of the definition of "Excluded Losses" defined in Schedule 1 of the Reinsurance Agreement.

As part of determining eligibility, Members may wish to consider under what regulatory category it is to be written and the type of policy form used, irrespective of what 'type' of underwriter, department or location is writing the business, and irrespective of what clauses are attached to such contract e.g. marine cargo clauses attached to a property form – these risks would still be eligible for cession if they are written on a property form and classed in the regulatory returns as such.

3.6 General Cover wordings and terrorism cover

The terrorism exclusion in General Cover wordings should apply to all sections eligible for cession as failure to do so could inadvertently allow the Member to retain the terrorism exposure on their own account. This would breach Article 11.1 of the Reinsurance Agreement which states that the Member will reinsure such parts of all contracts of direct insurance under which the Member provides insurance against Acts of Terrorism within the Territory in respect of the Class A Head of Cover or Class B Head of Cover. It is the Member's responsibility to ensure that all documentation in respect of direct insurance against an Act of Terrorism complies with Pool Re's Membership Agreement. The Member may evidence the terrorism cover buy back as it deems appropriate, usually by way of an endorsement, certificate, additional section or separate policy wording.

It is suggested that, in the terrorism cover buy-back wording, the General Cover exclusions are "overridden" and the definitions noted in the Definitions of the Reinsurance Agreement are imported to ensure that the cover is as wide as that offered by Pool Re. This would help overcome the inadvertent negation (exclusion) of CBRN cover due to the application of General Cover exclusions, such as Radioactivity. The buy-back should also be extended to cover all relevant General Cover sections including Money, Goods in Transit, Specified All Risks, Computers, Contract Works, etc. It should be noted, however, that where Goods in Transit or Aviation are not written as sections of the General Cover policy, but as separate, stand-alone policies, they would not be eligible for Pool Re protection. In the same way, contingency risks such as Event Cancellation and Film, when written within a Property Damage/Business Interruption policy, would be eligible for cession but if cover were written within the distinct Contingency class of business, it would not be eligible.

The only exclusions applicable to the terrorism cover should be those noted under Excluded Losses and Property (please see the definitions in Schedule 1 of the Reinsurance Agreement). In this regard, it is drawn to Members' attention that, whilst damage to a Nuclear Installation and/or a Nuclear Reactor (and all fixtures and fittings situated thereon and attached thereto and all pipes, wires, cables drains or other conduits or service media that are affixed or connected thereto) is, per se, excluded, it is the intention of Pool Re to provide terrorism cover for other types of Property arising from an Act of Terrorism occurring at the site of a Nuclear Installation and/or a Nuclear Reactor. When drafting suitable contract wording, attention is drawn to the provisions for mixed use – see sub-section 3.2.4. These elements should be incorporated within the wording.

A limited amount of cover in respect of damage by remote trigger is included for the Class A Head of Cover (it is not included for the Class B Head of Cover). In this regard, close attention should be paid to the definition of Excluded Losses in Schedule 1 of the Reinsurance Agreement, in particular (iv) which excludes Money and Data from the definition of Property.

The Member may offer for the Class B Head of Cover a narrower General Cover wording than offered under the Reinsurance Agreement (the “**NDBI General Cover**”). In such circumstances the cover for an Act of Terrorism will be the same as the NDBI General Cover wording. Members may also provide wider NDBI General Cover wording than is provided under the Reinsurance Agreement for an Act of Terrorism but claims that fall outside of the scope of the Reinsurance Agreement will be for the Member's own account.

Cover for an Act of Terrorism should otherwise be subject to the terms and conditions of the General Cover, apart from any Long Term Agreements/Undertakings and any adjustment provisions. Limits and deductibles should reflect those of the General Cover provided that any General Cover aggregate deductible limit should not apply to the cover for an Act of Terrorism.

It should be borne in mind by the Member that, notwithstanding risks insured on a Loss Limit basis, if the Member chooses to reflect a financial limit of liability against the terrorism cover in a certificate or schedule, the figure should reflect the maximum value taking into account all increases in exposure given by clause, including but not limited to Day 1 uplift, seasonal increase in values, Maximum Indemnity Period extensions.

It is advisable that, in the case where an Original Insured is required to insure specific Property only (for example, due to an imposed contractual requirement), that it be reflected within the policy documentation, and records kept to clarify which contracts/ assets are insured and which are not.

3.7 Member Retentions

3.7.1 Retentions

For each Member (or Member Group), the Reinsurance Agreement will contain annual aggregate retentions for: (1) non-conventional terrorism, which includes Chemical, Biological, Nuclear, Radiological (CBRN) and Cyber physical damage (the Section 1 Retention); and (2) all other terrorism (the Section 2 Retention). Members are, subject to minimum levels determined by Pool Re (see Minimum Retentions, at sub-section 3.7.2 below), able to choose their own Section 1 Retention and Section 2 Retention.

The Section 1 Retention and the Section 2 Retention will be sub-limited to no less than 40% of the applicable Minimum Retention in respect of the Class B Head of Cover.

3.7.2 Minimum Retention

Pool Re will determine for each Member on a bespoke basis, for each Underwriting Period, the minimum permitted amount of the Section 1 Retention and the minimum permitted amount of the Section 2 Retention (the “Minimum Retentions”). Members can choose to agree a Retention above the Minimum Retentions in return for a lower premium.

3.7.3 Interaction between the Retentions and worked examples

The higher of the Section 1 Retention and the Section 2 Retention shall be the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period.

We set out below a series of practical examples, which show how the retentions will work in practice, including the interaction of the Section 1 Retention and the Section 2 Retention. For the purposes of the worked examples, it is assumed that the Member's annual aggregate retentions are as follows:

	<u>Retention</u>	<u>Class B (sub-limit)</u>
<u>Section 1</u>	<u>£5,000,000</u>	<u>£2,000,000</u>
<u>Section 2</u>	<u>£7,500,000</u>	<u>£3,000,000</u>

As a preliminary observation, on the basis of these assumed retention figures, the maximum the Member will retain for eligible losses occurring in the Underwriting Period is the higher of the two Retention figures i.e. £7.5m.

3.7.4 Example 1: Single Act of Terrorism – Section 2, Class A Only

Within the Underwriting Period, the Member suffers eligible losses of £14.6m all of which:

- arise under the Class A Head of Cover; and
- are proximately caused by a single Act of Terrorism, which Pool Re determines to be a Conventional Act of Terrorism (to which the Section 2 Retention applies).

The Class A Section 2 losses exceed the Section 2 Retention of £7.5m. As such, the Member would bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, and would be entitled to recover from Pool Re £7.1m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	£14,600,000	£0
<u>Applicable Retention(s)</u>	-	-	£7,500,000	-
<u>Borne by Member</u>	-	-	£7,500,000	-
<u>Recovery from Pool Re</u>	-	-	£7,100,000	-

3.7.5 Example 2: Single Act of Terrorism – Section 2, Class B Only

Within the Underwriting Period, the Member suffers eligible losses of £14.6m, all of which:

- arise under the Class B Head of Cover; and
- are proximately caused by a single Act of Terrorism, which Pool Re determines to be a Conventional Act of Terrorism (to which the Section 2 Retention applies).

The Class B Section 2 losses exceed the Section 2 Retention sub-limit of £3m for the Class B Head of Cover. The Member would bear £3m of the eligible losses i.e. the level of the Section 2 Retention Class B sub-limit and would be entitled to recover from Pool Re £11.6m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	-	£14,600,000
<u>Applicable Retention(s)</u>	-	-	-	£3,000,000
<u>Borne by Member</u>	-	-	-	£3,000,000
<u>Recovery from Pool Re</u>	-	-	-	£11,600,000

3.7.6 Example 3: Single Act of Terrorism – Section 2, Class A and B

Within the Underwriting Period, the Member suffers eligible losses of £14.6m:

- of which £11.05m arises under the Class A Head of Cover and £3.55m arises under the Class B Head of Cover; and
- that are proximately caused by a single Act of Terrorism, which Pool Re determines to be a Conventional Act of Terrorism (to which the Section 2 Retention applies).

The Class A Section 2 losses exceed the Section 2 Retention of £7.5m and the Class B Section 2 Losses exceed the Section 2 Class B sub-limit of £3m. As such, the Member would bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, which is the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period. The Class B sub-limit would not, therefore, be separately applied. As with Example 1 above, the Member would be entitled to recover from Pool Re £7.1m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	£11,050,000	£3,550,000
<u>Applicable Retention(s)</u>	-	-	<u>£7,500,000</u>	
<u>Borne by Member</u>	-	-	<u>£7,500,000</u>	
<u>Recovery from Pool Re</u>	-	-	<u>£7,100,000</u>	

3.7.7 Example 4: Multiple Acts of Terrorism – Section 2, Class A

Within the Underwriting Period, the Member suffers eligible losses of £10.66m which:

- arise under the Class A Head of Cover; and
- are proximately caused by multiple Acts of Terrorism, all of which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The principles are the same as for Example 1 above. The Class A Section 2 losses exceed the Section 2 Retention of £7.5m. As such, the Member would bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, and would be entitled to recover from Pool Re £3.16m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	£10,660,000	£0
<u>Applicable Retention(s)</u>	-	-	<u>£7,500,000</u>	-
<u>Borne by Member</u>	-	-	<u>£7,500,000</u>	-
<u>Recovery from Pool Re</u>	-	-	<u>£3,160,000</u>	-

3.7.8 Example 5: Multiple Acts of Terrorism – Section 2, Class B

Within the Underwriting Period, the Member suffers eligible losses of £10.66m which:

- arise under the Class B Head of Cover; and
- are proximately caused by multiple Acts of Terrorism, all of which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The principles are the same as for Example 2 above. The Class B Section 2 losses exceed the Section 2 Retention sub-limit of £3m for the Class B Head of Cover. As such, the Member would bear £3m of the eligible losses i.e. the level of the Section 2 Retention sub-limit for the Class B Head of Cover, and would be entitled to recover from Pool Re £7.66m, as follows:

	<u>Section 1</u>		<u>Section 2</u>	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	-	£10,660,000
<u>Applicable Retention(s)</u>	-	-	-	<u>£3,000,000</u>
<u>Borne by Member</u>	-	-	-	<u>£3,000,000</u>
<u>Recovery from Pool Re</u>	-	-	-	<u>£7,660,000</u>

3.7.9 Example 6: Multiple Acts of Terrorism – Section 2, Class A and B

Within the Underwriting Period, the Member suffers eligible losses of £10.66m:

- of which £5.16m arises under the Class A Head of Cover and £5.5m arises under the Class B Head of Cover; and
- that are proximately caused by multiple Acts of Terrorism, all of which Pool Re determines to be a Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The Section 2 losses exceed the Section 2 Retention of £7.5m (i.e. there are Class A losses that, in addition to the fully eroded Class B sub-limit of £3m, exceed £7.5m). As such, the Member would bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, which is the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period. The Class B sub-limit would not be separately applied. As with Example 4 above, the Member would be entitled to recover from Pool Re £3.16m, as follows:

	<u>Section 1</u>		<u>Section 2</u>	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	-	£5,160,000	£5,500,000
<u>Applicable Retention(s)</u>	-	-	<u>£7,500,000</u>	
<u>Borne by Member</u>	-	-	<u>£7,500,000</u>	
<u>Recovery from Pool Re</u>	-	-	<u>£3,160,000</u>	

3.7.10 Example 7: Single Act of Terrorism – Section 1, Class A Only

Within the Underwriting Period, the Member suffers eligible losses of £10.66m all of which:

- arise under the Class A Head of Cover; and
- are proximately caused by a single Act of Terrorism, which Pool Re determines to be a Non-Conventional Act of Terrorism (to which the Section 1 Retention applies).

The Class A Section 1 losses exceed the Section 1 Retention of £5m. As such, the Member would bear £5m of the eligible losses i.e. the level of the Section 2 Retention, and would be entitled to recover from Pool Re £5.66m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
Aggregate Losses	£10,660,000	-	-	-
Applicable Retention(s)	<u>£5,000,000</u>	-	-	-
Borne by Member	<u>£5,000,000</u>	-	-	-
Recovery from Pool Re	£5,660,000	-	-	-

3.7.11 Example 8: Multiple Acts of Terrorism – Sections 1 and 2, Class A

Within the Underwriting Period, the Member suffers eligible losses of £10.66m of which:

- £6.485m of the losses arise under the Class A Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Non-Conventional Acts of Terrorism (to which the Section 1 Retention applies); and
- £4.175m of the losses arise under the Class A Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The eligible Class A Section 1 losses exceed the Section 1 Retention of £5m and eligible Class A Section 2 losses amount to a further £4.175m as against a Section 2 Retention of £7.5m. The Member would, however, only bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, which is the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period. The Member would be entitled to recover from Pool Re £3.16m, as follows:

	Section 1		Section 2	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
Aggregate Losses	£6,485,000	-	£4,175,000	-
Applicable Retention(s)	<u>£7,500,000</u>			
Borne by Member	<u>£7,500,000</u>			
Recovery from Pool Re	£3,160,000			

3.7.12 Example 9: Multiple Acts of Terrorism – Sections 1 and 2, Class B

Within the Underwriting Period, the Member suffers eligible losses of £10.66m:

- £6.485m of the losses arise under the Class B Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Non-Conventional Acts of Terrorism (to which the Section 1 Retention applies); and
- £4.175m of the losses arise under the Class B Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The eligible Class B Section 1 losses exceed the Section 1 Retention sub-limit for the Class B Head of Cover of £2m and the eligible Class B Section 2 losses exceed the Section 2 Retention sub-limit

for the Class B Head of Cover of £3m. The Member would, however, only bear £3m of the eligible losses i.e. Retention the level of the Section 2 Retention, which is the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period. The Member would be entitled to recover from Pool Re £7,660,000, as follows:

	<u>Section 1</u>		<u>Section 2</u>	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	-	£6,485,000	-	£4,175,000
<u>Applicable Retention(s)</u>	<u>£3,000,000</u>			
<u>Borne by Member</u>	<u>£3,000,000</u>			
<u>Member recovery from Pool Re</u>	£7,660,000			

3.7.13 Example 10: Multiple Acts of Terrorism – Sections 1 and 2, Class A and B

Within the Underwriting Period, the Member suffers eligible losses of £10.06m of which:

- £2.55m of the losses arise under the Class A Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Non-Conventional Acts of Terrorism (to which the Section 1 Retention applies);
- £775,000 of the losses arise under the Class B Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Non-Conventional Acts of Terrorism (to which the Section 1 Retention applies);
- £3.6m of the losses arise under the Class A Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies); and
- £3.135m of the losses arise under the Class B Head of Cover and are proximately caused by one or more Act(s) of Terrorism, which Pool Re determines to be Conventional Acts of Terrorism (to which the Section 2 Retention applies).

The Class B Section 2 losses of 3.135m exceed the Section 2 Retention Class B sub-limit of £3m. The Member has further eligible losses of £6.925m that do not exceed the Member's Retentions i.e. (1) £2.55m Class A Section 1 losses; (2) £775,000 Class B Section 1 losses; and (3) £3.6m Class A Section 2 losses. The Member would, however, only bear £7.5m of the eligible losses i.e. the level of the Section 2 Retention, which is the maximum amount to be borne by the Member in respect of all Covered Loss occurring in the Underwriting Period. The Member would be entitled to recover from Pool Re £2.56m, as follows:

	<u>Section 1</u>		<u>Section 2</u>	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
<u>Aggregate Losses</u>	£2,550,000	£775,000	£3,600,000	£3,135,000
<u>Applicable Retention(s)</u>	<u>£7,500,000</u>			
<u>Borne by Member</u>	<u>£7,500,000</u>			
<u>Recovery from Pool Re</u>	<u>£2,560,000</u>			

3.7.14 Conventional versus Non-Conventional

Pool Re will determine whether an Act of Terrorism is a Conventional or a Non-Conventional Act of Terrorism and is therefore subject to a Section 1 or Section 2 Retention. Pool Re will determine this issue by assessing whether the Act of Terrorism, or a material element of it, was intended to be or was a Non-Conventional Act of Terrorism, by reference to the relevant definitions in the Reinsurance Agreement, in accordance with Article 23 of the Reinsurance Agreement.

In the event that a Member disagrees with the determination made by Pool Re, the Member will be entitled to refer the matter to an insurance silk for a binding resolution, in accordance with Article 23.3 of the Reinsurance Agreement.

3.8 Retention setting methodology

3.8.1 Chief Underwriting Officer determination

For each upcoming Treaty Period, in or around September, the Chief Underwriting Officer of Pool Re will decide upon - and the Pool Re board will approve - for the upcoming Underwriting Period:

1. a Scheme Annual Aggregate Retention ("**SAAR**") i.e. the retention for the Scheme as a whole; and
2. a single annual aggregate retention for each Member or Group (the "**CUO Member Retention**").

3.8.2 The MAAR

In or around October, Pool Re will review all Members, including those that are active, new joiners, leavers, groupings, serving notice, and in run-off.

For each Member or Group, a Minimum Annual Aggregate Retention ("**MAAR**") for the upcoming Treaty Period will be calculated using the total Premium payable for the current Treaty Period as the anchor. The MAAR is calculated by taking the percentage weighting of the Premium paid that underwriting period by each Member, either individually or within a Group (the "**Member Premium**"), against the total Premium received by Pool Re for the Scheme for the current underwriting period (the "**Scheme Premium**") and applying this weighting against the SAAR, as follows:

$$\frac{\text{Memb (or Grp) Prem}}{\text{Total Prem}} \times \text{SAAR}$$

3.8.3 Setting a single Minimum Annual Aggregate Retention figure

For each Member or Group, a single minimum annual aggregate retention figure for the upcoming Underwriting Period will be calculated, which will be used to determine the Minimum Retentions applicable to each Member or Group for that upcoming Underwriting Period (as addressed in paragraph 3.7.2 above). This figure will be the higher of the following figures, rounded upwards to the nearest £10,000:

1. The MAAR; and
2. The CUO Member Retention.

In or around November, all Minimum Retentions will be signed off and uploaded to CRM and shared with Members via FORTRESS.

Section 4 – Premium

Premiums will be calculated on a treaty basis annually using a sophisticated terrorism risk actuarial pricing model, by reference to the nature of each Member's risk and its chosen Retentions. A smoothing mechanism will be used to avoid pricing shocks.

Data quality and timely provision of data, including in the Members' AER, will be fundamental to pricing.

Pool Re will provide actuarial modelling and exposure management expertise to support Members understanding of terrorism risk and how to price it.

Pursuant to Article 11.6 of the Reinsurance Agreement, the Member warrants and undertakes to Pool Re that it shall account and pay in full to Pool Re all Premium instalments by no later than the dates specified in the Treaty Schedule of the Reinsurance Agreement.

Payment details are included on the debit note provided with the Reinsurance Agreement. All payments made to Pool Re must quote the relevant policy number.

Section 5 – Claims

Article 10 of the Reinsurance Agreement prescribes how claims should be notified, reported and handled. The Section sets out an overview of the key provisions.

5.1 Certification for an Act of Terrorism

Pool Re is under an obligation to notify HM Treasury of each and every event which either it or a Member believes may constitute an Act of Terrorism. It is a condition precedent to Pool Re's ability to claim under the Retrocession Agreement that each event must either have been certified by HM Treasury to have been an Act of Terrorism or determined to have been one by the Tribunal envisaged in the Retrocession Agreement.

5.2 Claims Notification

Pursuant to Article 10.1(a) of the Reinsurance Agreement, Members must provide written advice to Pool Re as soon as reasonably practicable, or within such timeframe as Pool Re otherwise directs, after they become aware of (1) any claim(s) relating to an event which may constitute an Act of Terrorism; (2) circumstances which could give rise to a claim; and (3) any claim by an Original Insured against the Member that is, or has become, a Large Loss Claim (a claim by an Original Insured against the Member reserved at or above 50% of the lower of the Member's Minimum Retention(s) or such other amount notified to the Member by Pool Re).

Members should be aware that only those claims consequent upon an Act of Terrorism which has been certified as described above and which commenced within the Underwriting Period may contribute towards the erosion of a Member's Retention(s).

5.3 Appointment of Loss Adjusters

Members must appoint a suitably qualified and experienced Loss Adjuster (defined in Schedule 1 of the Reinsurance Agreement) on all Large Loss Claims or claims with a 100% gross reserve in excess £100,000.

In addition, Members must provide copies of Loss Adjuster reports for:

1. all claims that are referred to Pool Re when they are deemed a Large Loss Claim, as defined in Schedule 1 of the Reinsurance Agreement; and
2. all claims with a gross reserve over £100,000.

Save where otherwise provided in the Reinsurance Agreement, Members may negotiate and settle any claims which have a gross reserve below £100,000 themselves or delegate this function to third party contractors, provided it is the Member's usual practice to adjust claims of this value in this manner and the process is subject to the disciplines normally exercised by the Member on those authorised to take this action on the Member's behalf.

5.3.1 Appointment of Loss Adjusters – Follow Market

There may be occasions where a claim arises, and a Member is subscribed to a Lloyd's policy and/or is a co-insured with no control over the handling of a claim (i.e. a 'follower'). If a claim meets the necessary criteria to qualify as a Large Loss Claim under the Reinsurance Agreement or has a gross reserve in excess of £100,000 but the Member is not the lead or co-lead on the risk and is only a follower it is not expected that the Member should appoint its own Loss Adjuster or procure its own Loss Adjuster reports. Instead, it is expected that they provide copies of the relevant reports procured

by the lead insurer(s). In circumstances where a Loss Adjuster has not been appointed, a Member should seek to agree with the relevant lead insurer(s) that one is appointed.

5.4 Follow the settlements clause

Where the Member has complied with the terms of the Reinsurance Agreement, all settlements entered into by the Member in respect of Covered Loss shall be binding on Pool Re and erode the relevant Retention(s), provided such settlements fall to be indemnified under the terms and conditions of the subject Relevant Instrument(s) and fall within the terms and conditions of the Reinsurance Agreement.

Claims must be adjusted strictly in accordance with the policy terms and conditions. Any item outside the policy terms and conditions included in the claims adjustment must be referred to Pool Re for consideration prior to its inclusion into the settlement.

5.5 Inuring Recoveries

All inuring recoveries available from third parties must be made and inure to the benefit of the reinsurance protection.

5.6 Members' Right to Recovery

Should the total sum actually paid by the Member in respect of Covered Loss, exceed the Member's applicable Retention(s), the Member shall be entitled to apply to Pool Re for recovery of the excess. When applying for recovery from Pool Re, Members must confirm that the corresponding amounts have been paid to the Original Insured(s).

5.7 Group Information

Where the Member is a Group Reinsured, as a result of which Pool Re has notified Retentions on a group basis, aggregated group information will be required. In the event of a terrorism loss, the group should nominate a coordinator to provide the information required on the cumulative position in relation to the group's Retentions and on any subsequent distribution of claim payments between Group Reinsureds. The payment by Pool Re of any claims in excess of the applicable Retention(s) will be calculated in accordance with the principles set out in the Reinsurance Agreement.

5.8 Offset by the Member Not Allowed

Claims must not be offset against Reinsurance Premiums. Reinsurance Premiums and claims accounting must be processed separately.

5.9 Pool Re Right to Set-Off

Pool Re reserves the right to set-off any reinsurance recovery payable against any monies due to Pool Re from that Member.

5.10 Pool Re Audit

Pool Re will normally audit claims and associated policy and accounting records.

Pursuant to Article 10.1(b) Members are required to provide Pool Re with all reasonable information in respect of claims or circumstances notified in accordance with Article 10.1(a) and to thereafter keep Pool Re informed of developments as soon as practicable after they occur, including but not limited to providing Pool Re with a Claims Information Summary and any further information reasonably requested by Pool Re within 30 days of an event occurring that the Member believes may constitute an Act of Terrorism.

5.11 Insolvency of a Member

Pursuant to Article 8.3 of the Reinsurance Agreement Pool Re may at its option elect to pay an Original Insured directly in circumstances where the Reinsured does not pay within 60 days of payment becoming due and payable. This could include circumstances where a Member becomes insolvent and cannot make payment to the Original Insured.

5.12 Claims Process

Where Article 10.1(a) of the Reinsurance Agreement is triggered, Members are required to follow Pool Re's claims process. Pool Re will review and revise this process as it sees fit and will advise Members of any changes to the process.

The current claims process is as follows:

1. The Member should notify Pool Re in the circumstances set out at sub-section 5.2 above. This includes any claim(s) relating to an event which may constitute an Act of Terrorism and circumstances which could give rise to a claim.
2. As noted at sub-section 5.1, above, it is a condition precedent to Pool Re's ability to claim under the Retrocession Agreement that each event must either have been certified by HM Treasury to have been an Act of Terrorism or determined to have been one by the Tribunal envisaged in the Retrocession Agreement. If such certification / determination is provided, the relevant claim notification can continue to be progressed under the Reinsurance Agreement.
3. Within 28 days of such certification/determination Pool Re will provide a determination as to whether the Act of Terrorism is a Conventional Act of Terrorism or a Non-Conventional Act of Terrorism (see sub-section 3.7.14 above). This will determine the applicable Retention; please refer to sub-section 3.7 for more information on Member Retentions.
4. Pursuant to Article 10.1(b) of the Reinsurance Agreement, Members must provide Pool Re with a Claims Information Summary (as defined in Schedule 1 of the Reinsurance Agreement) and any further information reasonably requested by Pool Re within 30 days from the date of the suspected Act of Terrorism. Pool Re would expect such information to include a claims bordereau, which includes details of all known claims / losses. Please note:
 - (a) A single bordereau should be provided including all relevant classes of cover (i.e. any exposure to Class A Head of Cover and Class B Head of Cover).
 - (b) The Claims Information Summary should be submitted to CIS Submissions: claimscis@poolre.co.uk. Separate CIS Submissions must be made for Covered Losses arising from each Act of Terrorism.
 - (c) Following the initial bordereau submission, updated bordereau are to be submitted to Pool Re quarterly or at such other intervals as advised by Pool Re, following an event.
 - (d) If a Member has a number of memberships with Pool Re, such as separate entities (e.g. Company/Lloyd's markets), a single submission should be made to Pool Re for all claims / losses.
 - (e) Any Large Loss Claims as defined in the Reinsurance Agreement should be included in the Claims Information Summary and follow the Large Loss Claims process set out at Article 10.1(c) of the Reinsurance Agreement (see sub-section 5.13 below).
5. Pursuant to Article 10.1(d) of the Reinsurance Agreement, for all claims which have a 100% gross reserve in excess of £100,000 a Loss Adjuster must be appointed and their reports provided to Pool Re (see above at section 5.3). Losses over £10 million (whether or not a Large Loss Claim) must be notified and referred to HM Treasury by Pool Re, for further approval. Once approval has been provided and communicated by Pool Re to the Member, the Member may proceed with the claim accordingly.

5.13 Large Loss Claims

The Reinsurance Agreement defines a Large Loss Claim to include any claim by an Original Insured against the Reinsured:

1. reserved at or above 50% of the lower of the Reinsured's Minimum Retention(s); or
2. such other amount notified to the Reinsured by the Reinsurer.

Where Article 10.1(a) is triggered and the relevant claim falls in scope of the definition for a Large Loss Claim the below process must be followed in addition to Pool Re's claims process as set out above at sub-section 5.12.

1. The reserve (paid and incurred) for the Large Loss Claim must be included within the Claims Information Summary (i.e. the bordereau submission) provided to Pool Re. These figures must also include any associated fees relating to the claim and should be updated for each subsequent submission to accurately reflect the position.
2. Pursuant to Article 10.1(c) of the Reinsurance Agreement, Members must cooperate fully with Pool Re in respect of any Large Loss Claim. This includes submitting to Pool Re all accompanying Loss Adjuster reports and seeking written consent before litigating or settling any such claim.
3. For a Large Loss Claim below £10 million, Pool Re will endeavour to respond to the Member with either confirmation to proceed or comments, within five days of a request from a Member.

Large Loss Claims over £10 million must be notified and referred to HM Treasury by Pool Re, for further approval. Once approval has been obtained from HM Treasury and communicated by Pool Re to the Member, the Member may proceed with the claim accordingly.

5.14 Followers

If a Member is part of a follow market, for example, the Member is subscribed to a Lloyd's policy and/or is co-insured with no control over the handling of a claim (i.e. is not the lead or co-lead) where the claim meets the necessary criteria to qualify as a Large Loss Claim under the Reinsurance Agreement or has a gross reserve over £100,000 the following is relevant:

1. As set out at section 5.3.1 above, it is not expected that the Member should procure its own Loss Adjuster reports. Instead, it is expected that they provide copies of the relevant reports procured by the lead insurer(s).
2. Where a Member is a follower, this should be notified to Pool Re in the Claims Information Summary (i.e. on the bordereau submitted to Pool Re) and the 'follow' tab in the bordereau must be correctly marked.
3. Where the claim is a Large Loss Claim, an individual notification of the Large Loss Claim should also be made to Pool Re, advising that the loss is a Large Loss Claim, the Member is a follower and identifying the lead insurer(s) and/or the insurer(s) with claims authority.

Even if a Member is a follower, Pool Re may wish to take an active involvement in the adjustment of any claim and will advise the Member accordingly. Pool Re should be kept fully up to date with the developments of the claim and provided with copy reports when available.

Section 6 – Run-off

Under Article 17.6 of the Reinsurance Agreement, on termination, the Member will – in return for an additional premium – automatically receive the benefit of run-off cover from Pool Re under the terms of an endorsement set out at Schedule 4 to the Reinsurance Agreement that provides the same scope of coverage as the Reinsurance Agreement for relevant insurance contracts that remain in force and any quotations for insurance that cannot be withdrawn.

Section 7 – Renewal Life Cycle and Termination

7.1 Annual Exposure Return (AER)

Pursuant to Article 15.1 of the Reinsurance Agreement, by 15 August and at such further intervals as Pool Re may determine, Members must provide to Pool Re such information as is required by Pool Re to assess the Member's risk exposure. Such information shall be provided to Pool Re in an AER and/or in such other format(s) as are notified to the Member by Pool Re.

Each year Pool Re will issue a Member Circular setting out the process for the collection of exposure information. The exposure information will be used to calculate the applicable Premiums and Minimum Retentions on renewal – see sub-sections 3.7 and Section 4 above.

As a starting point, the AER needs to reflect the previous scheme rating practice and where a reinsurance rate was charged against an item, this should be included in the Exposure Return. If helpful the Member may use the last two columns of the AER to provide any additional information relevant to the exposure item.

The following sub-sections provide guidance on previous scheme interpretation. Reference should also be made to Appendix 1. Ultimately the instructions given in the annually released Circular will prevail but do contact Pool Re if further clarity is needed.

7.1.1 Construction Works Exposure

Depending upon whether the contract is a specific contract or an annual construction contract, the measure of exposure for construction works shall be either the Estimated Contract Price or the annual Turnover.

These measures were chosen to aid simplicity in rating, although any claim will be paid on the General Cover limits.

Whilst the reinsurance premium is not calculated on ancillary policy items such as Own Plant, Site Huts and Temporary Buildings, it should be borne in mind that there are some trades, e.g. demolition/site clearance contractors, where it is recognised that if turnover were to be used as the basis of calculation, a disproportionately low premium would be charged compared to the risk brought to the Scheme. In these cases, the Member should consider the Exposure to be declared, and whether to include the Own Plant sum insured within the AER.

As another example, if the General Cover policy provided cover for Hired In Plant on a stand-alone basis, it would be reasonable for the Member to include an Exposure value of 2.5 times the hiring charges.

In respect of policy clauses which may be included either as additional values or inner limits, the AER should include exposure values for those clauses which provide cover under another Head of Cover (for example ICOW, DSU, Continuing Hire Charges).

In respect of Existing Structures, the full value exposure should be included in the AER for policies that are arranged on a specific project basis. Where an annually renewable CAR policy is arranged and it automatically provides a sub-limit for Existing Structures, the exposure value should only be included if the standard sub-limit is increased or an Existing Structure exposure is known to exist.

Examples of clauses where in general, exposure does not need to be included in the AER:

- Professional fees
- Plans and documents
- Debris removal
- Expediting expenses
- Hired in Plant charges
- Loss Minimisation costs.
- Legislative and regulatory requirements relating to reinstatement
- Additional Costs of Completing unbuilt works
- Additional costs to expedite completion
- Site reinstatement

7.1.2 Clauses - Rent/Alternative Accommodation (Residential)

Where cover is provided as an extension to the General Cover policy, whether on a Material Damage or Business Interruption basis of settlement, and a 'standard product' limit is contained within the clause, then this must accurately be captured in the Member's AER.

In the event that an Original Insured requests an increased limit, Members must notify Pool Re of this change in exposure.

This section is not applicable to Rent/Alternative Accommodation cover for non-residential risks. It should be noted that Halls of Residence/ and/or student accommodation blocks are not regarded as residential risks for the purpose of this section.

7.1.3 Clauses - Contract Works clause/extension to the Property Damage policy (as opposed to being covered under a Construction policy)

Where Contract Works cover is given as a standard inner limit within the wording of the Property Damage policy, if the Original Insured has requested a limit higher than that provided for by the Member's standard product this must be identified in the AER. In this instance, the full exposure (from ground up, rather than in excess of the standard policy limit) must be included in the AER.

7.1.4 Clauses – Delay or Extension of the Indemnity Period

Provision should be made in Members' AER for clauses which delay or extend the Indemnity Period under a Business Interruption Head of Cover. Examples include:

- Investigative delays;
- Indemnity Period - Terms of Lease; and
- Turnover Rent.

7.1.5 Clauses - DIC/DIL

DIC and DIL is cover for Difference in Cover/Difference in Limits, not difference in Exclusions, (terrorism cover being an Exclusion in the General Cover policy).

As terrorism cover requires the perils of fire and/or explosion to be insured by the General Cover, reinsurance for DIC/DIL cover is not available from Pool Re unless the General Cover sits above another General Cover provided by a Member where full terrorism cover has been reinsured under all General Covers to Pool Re. In other words, DIC/DIL exposure can only be ceded to the Pool if the subject matter (property or contract works) is already insured and ceded to the Pool in some form. If it isn't, then no terrorism cover can be provided.

Policy extensions which provide for the payment of claims which are not covered under the terms of another policy (difference in conditions) or the excess value over any other policy (difference in limits) are reinsured only insofar that an exposure can be established and the full value of that exposure is reflected in the Member's AER.

7.1.6 Clauses - Global Group Interdependency and Third Party Extensions

Group Interdependency clauses could potentially extend the General Cover Business Interruption Section to include an overseas BI loss triggered by an Act of Terrorism incident within the Territory. Any potential exposure to this must accurately be captured in a Member's AER.

As an Example:

If an overseas manufacturing plant is dependent upon the small items produced in the UK, and cover includes such dependency, the BI loss emanating from damage to the UK factory could include the loss of manufacturing revenue from the overseas plant, as well as the loss of production from the factory in the UK.

Where the General Cover includes this clause, the Member should assess whether there is a true exposure to the policy. If there is and the clause contains a sub-limit, the sub-limit should be included in the Member's AER. If the clause does not contain a sub-limit, the Member is obliged to assess the exposure and the full value exposure should be included in the Member's AER.

Similarly, if extensions such as Customers and Suppliers are included within the General Cover Business Interruption Section, the Member is expected to include the exposure within its AER.

As an Example:

ABC Bank has insured BI cover on an ICOW only basis but, following the purchase by ABC Bank of XYZ Bank, a large Suppliers Extension is requested to cover the transfer of XYZ customer accounts to ABC Bank. If the Suppliers Extension limit were disproportionate to the ICOW cover, it would be expected that the Suppliers Extension Exposure be included within the Member's AER.

7.1.7 Clauses – VAT

7.1.7.1 Commercial Property

Unless VAT exempt, Original Insureds should include provision for VAT in those sums insured where they are unable to recover such costs from HM Revenue & Customs. If the VAT element has been deducted from the sums insured, it would be necessary to include this exposure, in addition to the declared value, for the purposes of the AER.

7.1.7.2 Residential Property

VAT on Residential Property is a complex affair given that many types of new build are zero rated, although repair and refurbishment of existing residential property is subject to VAT. The Member should continue to maintain their current approach to determining the exposure values and will not be prejudiced as long as it can be demonstrated that the Member has adopted a consistent position.

7.1.8 Clauses - Miscellaneous Un-named/ Unspecified Locations (MUL)

A Miscellaneous Un-named Locations clause or a Miscellaneous Unspecified Locations clause is frequently seen in master or global policies and is usually subject to an inner limit. The Member should assess whether there is a known exposure and should ensure this is captured in the AER. An example would be if it was the Member's practice to rely on the MUL Clause in order to sweep all values below the Clause limit together as a method of not having to specify all locations on the schedule, that being the case, it would be preferable for a split by postcode to be provided in the AER, or if easier for the Member, note the exposure as MUL in the postcode column and sum total the exposure value. Pool Re reserve the right to request more information on these items if necessary.

7.2 First Loss items - Property Damage

Exposure information should be included on the Declared Value, with the Loss Limit noted being noted in the relevant column on the AER.

On some occasions, Professional Fees and Removal of Debris costs are deducted from the Buildings/Contents declared value, and cover arranged on a first loss basis. Where this is the practice, this should be accurately captured in a Member's AER (otherwise the exposure would be understated as it would not include items that could potentially form part of a claims recovery under the Scheme). This does not apply to foundations, for which the full value exposures should be included.

If the Declared Value includes provision for these elements by way of the 'standard' wording, and reference is made to first loss limits as inner or sub-limits within the General Cover product a Member should make this clear in the AER.

7.3 First Loss items - Business Interruption

Where such items are covered in isolation, without full gross profit/revenue etc., then the Exposure value on the AER should reflect the extent of the policy coverage for such items ie. if there is an aggregate limit any one event and/or period of insurance, or if there is no aggregate the exposure value should be declared on each location to which it applies.

Examples include, but are not limited to:

- Research & Development

- Royalties
- Fines and damages
- Advance Profits
- Enterprise Zone Allowance

7.4 Loss Limits – Location level adjustment

Members can apply a special adjustment discount for loss limits.

Where the General Cover is arranged subject to a Loss Limit, the Member's AER must refer to the full value exposure (representative of the Maximum Indemnity Period), the loss limit is to be captured in the loss limit column of the AER.

A special adjustment discount can be offered on specific locations where a General Cover loss limit of at least £80 million applies. In considering whether the risk merits an adjustment, the Member should use the gross loss limit, rather than their share of the loss limit.

Criteria for application for this special adjustment discount will involve assessment of total exposed asset value at each location against the General Cover loss limit. The special adjustment discount must not be offered for locations where the exposed values per location cannot be shown to exceed the loss limit by at least 20%.

Appendix 2 sets out the table of discounts which are available for use by Members without prior referral to Pool Re subject to the premium payable for an Act of Terrorism before discount being less than £1.5 million, £1.5 million being relevant to the 100% premium payable, not the Member's share of a co-insured or layered programme.

The discount is on the basis of a combined material damage exposure and Business Interruption loss limit. As long as the limit exceeds £80 million the discount may be used on the singular material damage or Business Interruption loss limit if that mirrors the underlying basis.

The special adjustment discount is applicable to the individual location, thus the discount is only applicable to the element of Business Interruption cover for the location in question. The discount does not apply to the total policy's Business Interruption premium. If the Business Interruption exposure value floats over multiple locations, the discount should not apply to the Business Interruption location premium unless the Member can provide a rationale.

Whilst it is generally straightforward to attribute material damage exposure values to a fixed location, the General Cover policy may provide Business Interruption cover on a floating/global basis. It is important therefore that a rationale for the Business Interruption exposure relative to the specific location in question, is also provided by a Member. Where the underlying risk is scheduled or co-insured, the lead office should provide a copy of the rationale to the other Members.

Where the Reinsurance Premium for the General Cover exceeds £1.5 million referral to Pool Re is required. Any referred cases should be resubmitted to Pool Re on an annual basis.

7.5 Flexible Limit of Loss - BI Cover

Where the General Cover is arranged on a Flexible Limit of Loss or Flexible Loss basis, the Member's AER must refer to the full value exposure (representative of the Maximum Indemnity Period), the flexible loss limit is to be captured in the loss limit column.

Depending upon the relationship and the between the Flexible Limit of Loss and the full value of the exposure the reinsurance premium for the Business Interruption risk may be discounted without prior referral to Pool Re as per the discounts in the table at Appendix 2.

This discount may also be used in conjunction with the Loss Limit discount available in section 7.4.

7.6 No Maximum Indemnity Period & Extended Period of Liability (EPL)

Certain types of policies have no maximum period of indemnity for business interruption.

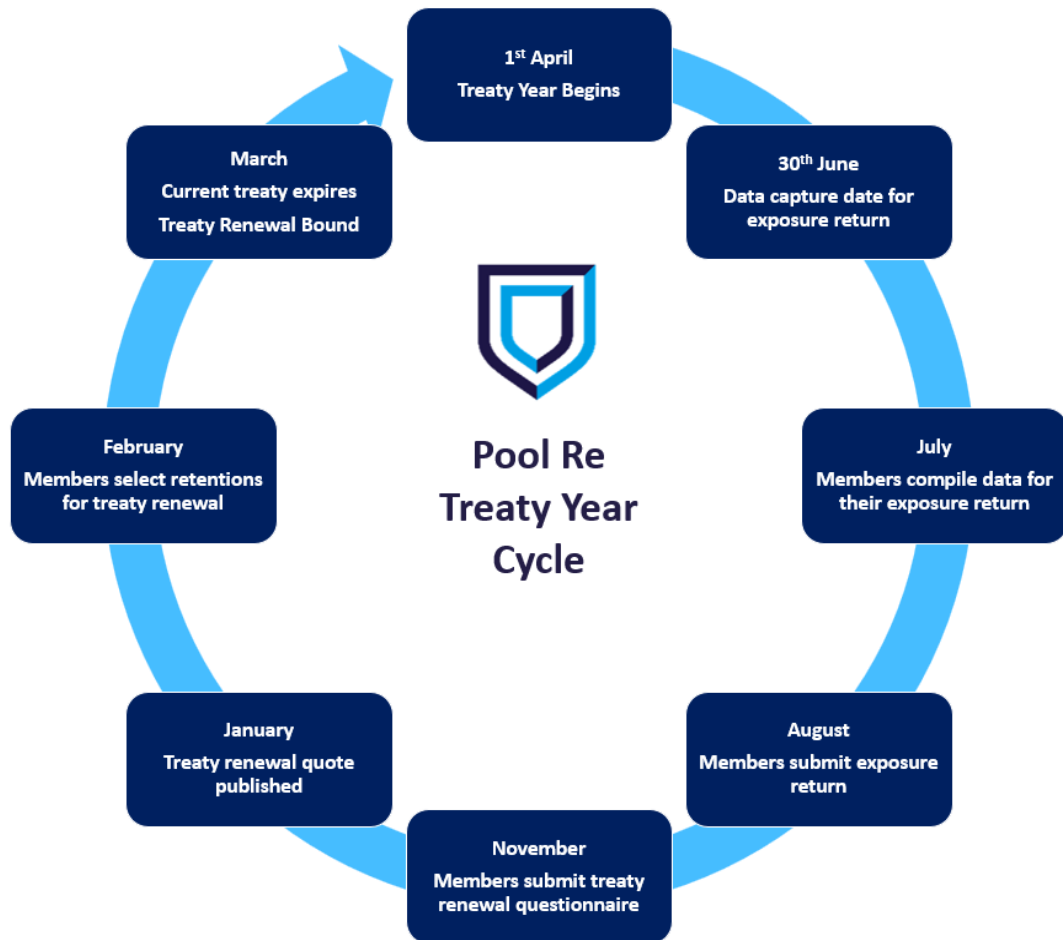
In some cases, the business interruption indemnity period relates to the period of reconstruction/reinstatement/restoration and does not allow for any period beyond that would enable the Original Insured to replace stock or recover their trade back to pre-loss levels. In these instances, the Member must ensure that the full value exposure reflects the cover provided by the General Cover wording and if the policy is extended to provide cover for the further period beyond reinstatement of the property, this should be reflected fully in the Member's AER.

In other cases where the indemnity period is unlimited, Members should make this clear in the AER by populating the Indemnity Period column with 999.

In all cases, it is strongly recommended that the Member keeps a note of the exposure calculation methodology as Pool Re may request further details.

7.7 Treaty Life Cycle

Members should be aware of the Treaty Life Cycle as set out in the below diagram:



Appendix 1 – General Underwriting Principles – Further Guidance

Section 1

For the sake of continuity between the old scheme (valid until 31 March 2025) and the new treaty Scheme (valid from 1 April 2025) this appendix sets out additional underwriting considerations.

1.1 Animals - Bloodstock & Livestock

Where animals are included under a General Cover policy, they are eligible for cession to the Scheme.

1.2 Bankers Blanket Bond

The main purpose of the Bankers Blanket Bond is to provide blanket protection to a financial institution against losses resulting from its employees' dishonest or fraudulent acts and from third parties' acts committed with the intent to obtain a financial gain or to cause damage. Whilst such a policy may also include loss/damage to property in the premises of the Original Insured caused by, amongst other perils, fire and/or explosion, Pool Re does not regard Property insured under a Bankers Blanket Bond as eligible for cession to the Scheme. To clarify further, where the Property is insured on a property form e.g. Negotiable Money under a Money Section of a combined policy, the Property will be eligible for cession to the Scheme, but not if it is written under Bankers Blanket Bond or a Marine Policy.

1.3 Captive - participation in programmes

In addition to the Permitted Departures set out in Schedule 3 of the Reinsurance Agreement, the following examples are illustrations in relation to the Adverse Selection Principle of how a programme might look when a Captive is a participant in the insurance arrangements:

Example 1:

The Original Insured may choose to place 100% of the General Cover with a Member, and the terrorism cover with their Captive (which is not a Member). In this scenario the Captive may reinsure the terrorism risk in the alternative market.

If the Captive were a Member of Pool Re, it would be unable to accept the terrorism risk without also writing the General Cover. Writing terrorism cover in isolation and retaining the risk net to account would contravene the Reinsurance Agreement.

Example 2:

The Original Insured may choose to place 50% of the General Cover and terrorism cover with a Member, and 50% with the Captive on a co-insured basis. In this scenario, the Member would cede its 50% of the terrorism risk to Pool Re, and the Captive (being a non-Member), would have the option of either becoming a Member of Pool Re and ceding its proportion to the Pool, or to remain a non Member and reinsure the terrorism cover in the alternative market.

1.4 Clauses - General Comments

Unless indicated to the contrary elsewhere in this Scheme Guide or in the General Cover policy wording, terrorism cover will apply to all the clauses and extensions of the General Cover. In view of this, there are some clauses/extensions which increase the exposure brought to the Pool and this might have implications for a Member's Premium. Members are reminded that although Original Insureds may consider some of the extensions to be 'sleep-easy' in nature, the cover is more likely to be triggered by an Act of Terrorism than by other causes due, for example, to the extensive/wide area damage and contamination arising from chemical, biological, radiological or nuclear (CBRN) incidents.

1.4.1 Clauses - DIC/DIL

DIC and DIL is cover for Difference in Cover/Difference in Limits, not difference in Exclusions, (terrorism cover being an Exclusion in the General Cover policy).

As terrorism cover requires the perils of fire and/or explosion to be insured by the General Cover, reinsurance for DIC/DIL cover is not available from Pool Re unless the General Cover sits above another General Cover provided by a Member where full terrorism cover has been reinsured under all General Covers to Pool Re. In other words, DIC/DIL exposure can only be ceded to the Pool if the subject matter (property or contract works) is already insured and ceded to the Pool in some form. If it isn't, then no terrorism cover can be provided.

Policy extensions which provide for the payment of claims which are not covered under the terms of another policy (difference in conditions) or the excess value over any other policy (difference in limits) are reinsured only insofar that an exposure can be established and the full value of that exposure is reflected in the Member's AER.

1.5 Contingent terrorism cover

As a general guiding principle, terrorism cover follows the General Cover to which it attaches, thus if the Member were to issue a Contingent policy covering at least the perils of Fire and/or Explosion, contingent terrorism cover may also be offered.

The word 'contingent' has more than one meaning. Under this section, the following are discussed:

- the same subject matter being insured by different parties;
- contingent default policies and loans;
- Insolvency Practitioners and Contingent Solicitors policies; and
- contingent/sleep easy cover insured by clause.

1.5.1 Same subject matter, insured by different parties

As an example:

The Member insures both the tenant of the property and the Property Owner, under two separate contracts of insurance. Both the tenant and Property Owner purchase terrorism cover on their respective policies.

The bank has advised both the tenant and Property Owner that the building should be insured for £19m but the Property Owner refuses to increase the sum insured on his policy from the current £12m, even though the tenant is responsible for paying the premium.

Contingent cover is provided under the tenant's policy, and on this basis, the exposure declared to Pool Re for the tenant should be the full value, i.e. £19m.

1.5.2 Contingent default policies

A policy that provides cover for the Insured's pecuniary interest in outstanding loans where property is used as collateral for the loan, is eligible for cession.

It should be understood that the insurance discussed here does not provide cover for the property itself, but the potential loss to the bank or building society if the mortgagor defaults on a mortgage agreement in the event that the property suffers damage, and the insurance arranged by the mortgagor proves to be defective.

If the policy trigger is the default of the loan post damage, and the maximum that would be paid out is the outstanding loan value, the exposure in this situation would be the sum of all outstanding loans on accounts 3 months or more in arrears. There is no consideration of the maximum or average loan value. The exposure value is based on the industry norm of declaring the value of all accounts 3+MIA to the Council of Mortgage Lenders (CML).

By contrast, if the loan facility were to require 3+MIA to the Council of Mortgage Lenders (CML), contingent cover for property in their custody or control, the exposure will be the full value of the

property. This is because the property is the subject matter of the insurance, not the outstanding loan value.

It should be noted that the loan facility would be required to comply with the Adverse Selection principle - all assets must be insured for terrorism cover, subject to the Permitted Departures.

It should be further noted that the Reinsurance Agreement does not extend to cover either the pecuniary interest in outstanding loans, nor to the property in the custody or control, if such property the subject of the outstanding loan or the subject matter itself does not meet the eligibility criteria. Thus, no cover is provided for private dwellings or other such property that is insured under a Household policy which has no ability of being able to offer the extent of terrorism cover as defined by Pool Re, and thus the reinsurance risk is not one of a Contingent default type.

1.5.3 Insolvency Practitioners and Contingent Solicitors policies

If the Insolvency Practitioner or Solicitor require contingent cover for property in their custody or control, the Exposure will be the full value of the property, any known exposure to this should be accurately captured in a Member's AER. Contingent/sleep easy cover provided by General Cover clauses.

Policy contracts may contain clauses that provide some level of comfort against the unknown risk - for example Miscellaneous Unknown Locations, Contract Works, Failure to Insure, Inadvertent Omission to Insure, Contingent Leased Premises. Clauses may or may not be subject to sub-limits.

Any known exposure to this should be accurately captured in a Member's AER. Subject to the risk being unknown and thus the Member being unable to ascertain the full exposure value as at the date of the Member's AER, the Member is required to provide Pool Re with up to date exposure information upon discovery of a true exposure.

1.6 Insolvency Practitioners

Insolvency Practitioner business is usually written on a binder authority basis with declarations being received by the Member on a monthly basis.

1.7 Jewellers Block and Fine Art

Policies which include fire and/or explosion cover are eligible under the Scheme and, where terrorism cover is required by the Original Insured, must be declared in the AER.

1.8 Master versus Local Policies

Terrorism cover will respond precisely in line with the General Cover terms, conditions and limits of the UK Local policy, not the cover and limits that are contained in the Master policy, unless the Local policy contains provisions to stretch the cover to include the terms of the Master policy. In this instance, where the Member is providing cover under a UK Local policy, the Master policy wording should be reviewed to ensure that the exposure has been fully assessed and is reflected in the AER.

1.9 Motor Trade - Motor Vehicles

Motor vehicles under a Motor Trade policy, other than vehicles insured under the Road Risks section of the policy, are eligible under the Scheme. Where terrorism cover is required by the Original Insured, the exposure must be fully assessed and reflected in the AER.

1.10 Non-Marine Policies Excess of Marine Policies

Where property on land is partially covered by a marine insurance policy, with a non-marine policy covering the fire/explosion risk for the excess value above the marine policy, terrorism cover is available in respect of the non-marine policy, but the AER must include the full declared value of insured property located in the Territory.

1.11 Specialist Contingency business

This refers to the insurance written in the Contingency class of business and refers to cover arranged for such contingencies as Cancellation & Abandonment, Non-Appearance, Death/Disablement/

Disgrace, Prize/Promotion Indemnity, Film, National Mourning and Over Redemption. It could also apply to policies written within the scope of sub-section 1.5.3.

It is common (although not exclusive) for this type of business to be written through Lloyd's of London. The Contingency class is a separate and distinct class of business from Property & Pecuniary, and risks written thereunder are not eligible for cession to the Scheme. However, where cover is written within the Property & Pecuniary policy, risks are eligible for cession.

1.12 Warehouseman's Legal Liability

Where a Member includes Warehouseman's Legal Liability cover under a fire and/or explosion policy in respect of stock values owned by third parties at the Original Insured's locations, then such cover is eligible for cession to the Scheme.

Appendix 2 – Premium Discounts

The following table of discounts is available for use by the Member without prior referral to Pool Re. Please refer to sections 7.4 and 7.5 above for more details.

Loss Limits

Loss Limit as a % of the TSI at the specific location	Discount applicable to specific location (MD & BI element)
Greater than 80%	NIL
70% - 80%	3%
65% - 69%	5%
60% - 64%	7.5%
55% - 59%	10%
Below 55%	Refer to Pool Re

Flexible Limit of Loss - BI Cover

Loss Limit as a % of the TSI at the specific location	Discount applicable to a specific location (MD and NDBI element)
Greater than 80%	0%
70% – 80%	3%
65 – 69%	5%
60 – 64%	7.5%
55% – 59%	10%
Below 55%	Refer to Pool Re

The Total Sum Insured (“**TSI**”) is the combined material damage declared value (“**MD**”) and NDBI estimated value (adjusted for the Maximum Indemnity Period) for the specific location in question.

Appendix 3 – Transition Appendix – April 2025

Section 1 Introduction

This appendix sets out the position in respect of the transformation of the Pool Re Scheme from the current mechanism (applicable until April 2025) (the “**Current Reinsurance Agreement**”) to an Aggregate Excess of Loss treaty mechanism.

As Members will be aware, Pool Re and its Scheme are subject to periodic review by HM Treasury to ensure that Pool Re and the Scheme remain necessary and in the best interests of the insurance industry, Pool Re’s members, the Government, the taxpayer and the wider economy. The most recent five-year HM Treasury review of the Scheme (the “**Review**”) concluded in March 2022. The Review resulted in the agreement by HM Treasury and Pool Re of a Scope of Works, which was approved by the Members on 18 March 2022. The Scope of Works agreed the actions that Pool Re would undertake to achieve its objectives, including the pro-active return of terrorism risk to the market and the creation of the conditions necessary for greater penetration of terrorism insurance, particularly among SMEs, which would increase the resilience of the UK economy to the financial impacts of terrorism. The changes to the Scheme therefore are a result of this Scope of Work. The changes have been shaped and informed by Members’ detailed responses to the comprehensive Member Consultation undertaken by Pool Re in 2022 and Members’ subsequent input and feedback throughout 2023 and 2024.

Section 2 Overview of the changes

2.1 No changes to the fundamental principles of the Scheme

The fundamental principles of the Scheme – which underpin the provision of affordable commercial property and business interruption coverage against terrorism in Great Britain – will remain the same:

- (1) The Scheme will remain a government-backed reinsurance treaty providing Members with unlimited commercial property and business interruption terrorism coverage for losses incurred as a result of an Act of Terrorism, as certified by HM Treasury.
- (2) Whilst the Scheme will change from operating on a “risks attaching” basis to a “losses occurring” basis, there will be no change to the scope of the coverage provided by the Scheme – the same losses that currently fall for cover under the Scheme will fall for cover under the revised Scheme.
- (3) The unlimited nature of cover under the Scheme, with HM Treasury backing, will remain unchanged.
- (4) The rules of membership and eligibility will remain as defined in the current Scheme. Membership of the Scheme will remain open to all insurance companies and Lloyd’s Managing Agents acting on behalf of a Syndicate authorised to write commercial property or business interruption terrorism insurance coverage in Great Britain.
- (5) An “Act of Terrorism” will remain as defined in the Reinsurance (Acts of Terrorism) Act 1993 and subject to certification by HM Treasury.
- (6) The protections against adverse selection for Pool Re, HM Treasury and ultimately the taxpayer, derived from the “cede all business” and “all or nothing” rules will remain as in the current Scheme. For the same reasons, the existing “general cover” rule will be maintained.

2.2 Key changes in the transformation from a facultative treaty to an aggregate treaty basis

Pool Re has updated and modernised the Scheme to ensure it remains relevant and is fit for purpose in the digital age. Therefore, the Scheme has been modernised to provide Members with more flexibility to underwrite terrorism risks in alignment with their strategic priorities and risk appetite.

Key changes to the Scheme are as follows:

- (1) **Losses occurring basis:** The Scheme will provide cover on a “losses occurring” basis i.e., all losses arising from a certified Act of Terrorism that commences during the relevant 12-

month Underwriting Period will fall for cover under the Reinsurance Agreement. By contrast, the Scheme currently operates on a “risks attaching” basis i.e., all relevant insurance policies that incept or renew during the Underwriting Period attach to the Reinsurance Agreement.

- (2) **A single Reinsurance Agreement:** There are currently separate Class A and Class B Reinsurance Agreements. Under the Scheme Class A (Property Damage / Business Interruption) and Class B (Non-Damage Business Interruption) cover will be provided under a single Reinsurance Agreement. Where the eligibility criteria are met, Members will continue to be able to buy cover for either Class A Head of Cover or Class B Head of Cover or both – in each case under a single Reinsurance Agreement. The Class A Underwriting Manual effective 1 October 2022 and the Class B Underwriting Manual effective 15 February 2019 (together, the “**UW Manuals**”) will no longer form part of the reinsurance contract (although some of their relevant provisions have been incorporated as legally binding provisions within the updated Reinsurance Agreement). The UW Manuals have been replaced by this non-binding Scheme Guide.
- (3) **Annual renewal:** there will be an annual underwriting period for the treaty, running from 1 April to 31 March each year, rather than the current continuous, rolling contract. There will, therefore, be the requirement for an annual renewal of the Reinsurance Agreement. Members who do not renew annually will cease to be Members of Pool Re.
- (4) **Treaty Schedule:** Under the updated Scheme, for each 12-month Underwriting Period, the wording of the Reinsurance Agreement will be identical for each Member (as is currently the case), but each Member will receive a Member-specific Treaty Schedule setting out the Member's individual premium and retentions (or Group Premium and Retentions, if preferred). The pricing methodology will be consistent for all Members. Other than in relation to the Treaty Schedule, and as is currently the case, there will be no scope for Members to negotiate bespoke terms in respect of the Reinsurance Agreement.
- (5) **Portfolio pricing:** Under the existing Scheme, Members' premiums are payable quarterly to Pool Re by reference to zonal tariffs, which are agreed periodically with HM Treasury and set out in the UW Manuals. Under the updated Scheme, Members' premiums will be calculated by Pool Re on the basis of the Member's ceded portfolio using Pool Re's actuarial terrorism risk model and adjusted by a smoothing mechanism, which will be consistently applied in order to maintain pooling and avoid pricing shocks.
- (6) **Bifurcation of retentions:** the risk retention structure of the Scheme has been sub-divided (or “bifurcated”). The updated Reinsurance Agreement will include a Treaty Schedule which will specify two aggregate retentions: (i) a Section 1 annual aggregate retention for Chemical, Biological, Radiological, Nuclear and Cyber Acts of Terrorism (together, Non-Conventional Acts of Terrorism); and (ii) a Section 2 annual aggregate retention for all other terrorism events (Conventional Acts of Terrorism). In the event of a loss, the Reinsurance Agreement provides that Pool Re will determine whether an Act of Terrorism is a Conventional or Non-Conventional Act of Terrorism, and, therefore, falls within the Section 1 retention or the Section 2 retention. Should any Member disagree with Pool Re's determination, the Reinsurance Agreement provides a dispute resolution process to address this. A Member's maximum exposure will be the higher of the two (Section 1 or Section 2) retentions. Within each Section retention there will be a separate sub-limited annual aggregate retention in respect of Class B Head of Cover.
- (7) **Annual retentions:** Under the current Scheme, each of Class A and Class B has an event retention and an aggregate retention. Pool Re sets the retention levels for the whole Scheme, then each Member's retentions are calculated based on their market share of the estimated Pool Re premium. The new Scheme will dispense with the event retention. Pool Re will set Minimum Retention(s) for each Member, below which such Member will be unable to buy cover from Pool Re. Members will be able to agree retentions above their Minimum Retention(s) in return for a lower premium. In the first year of the new Scheme, the Minimum Retention(s) will be set at a level equivalent to Members' event retentions in the prior year, this is explained in more detail in section 4 below.

Section 3 Errors or Omissions / QPD payments / Risk Excess of Loss Reinsurance Scheme closure process

3.1 Current position – reporting of Errors or Omissions

Under the existing Scheme, an error is a breach of the Current Reinsurance Agreement and/or UW Manuals provisions and, in view of the Reinsurance Agreement containing conditions precedent to liability and warranties, which could jeopardize a Member's reinsurance cover not just for the affected risk, but across the Member's entire account.

Article 13.1 of the Current Reinsurance Agreement provides some protection against inadvertent or immaterial delays, omissions or errors. It notes that such errors and omissions shall not entitle Pool Re to exercise any right of termination or to relieve either of the parties from any liability which would have attached to them if such delay, omission or error had not occurred provided that, if rectification is possible, it is made as soon as practicable upon discovery.

Pursuant to the current Scheme, no matter how old an error may be when discovered, any error over £250 must be rectified as soon as practicable upon discovery. Any premium error up to £5,000 can be settled within the Member's next quarterly premium declaration ("**QPD**"). Members are required to notify any error where the premium shortfall is £5,000 or greater to the Pool Re team for further investigation and instruction. Members are also required to advise substantial overpayments to Pool Re for further investigation and verification before the funds are returned.

The data within the Pool Re error register is collated from Members notifying errors or omissions to the Pool Re team i.e. those items over a £5,000 premium.

This section sets out the position in view of the transition from the current Scheme and in particular:

- (1) When Pool Re will require Members to submit QPDs; and
- (2) To what extent Members can present errors and omissions and premium reclaims (made under the existing Scheme), which subsequently require Members to submit a Supplementary Premium Declaration ("**SQPD**").

3.2 Run Off of Quarterly Premium Declarations (QPDs)

Q1 2025 is the final quarter that premiums will be due under the existing Scheme. Members will therefore be required to submit a Q1 2025 QPD on 30 April 2025.

For delegated business written under lineslips or binders, the current UW Manuals allow Members, where they are not aware at the time of submitting a QPD of the exposure / premium to which they have been bound during the month immediately preceding the end of a calendar quarter, to include that exposure/premium in the following quarter's QPD. This means that for delegated business inception in March 2025, the Members would be permitted to settle the premium in Q2 2025 i.e. at the end of July 2025.

Members must therefore submit a final QPD for Q2 2025 to enable the premium relating to the lineslip and binder business to be settled to Pool Re. This could also enable Members to process outstanding E&Os relating to Q1 2025 and prior periods (particularly those under £5,000) within this final quarterly premium declaration.

3.3 Error Reporting

Inevitably, some E&Os/premium reclaims will remain outstanding after Q2 2025. Members are required to notify E&Os up to 12 months following the closure of the existing Scheme, i.e. 31 March 2026 (QPD due by 30th April 2026). After this date no further E&Os will be either required or allowed. E&Os notified by 31 March 2026 may be processed after this date.

Pool Re is aware that in respect of E&Os identified for business that was written under the existing Scheme but remains live following the transition, any errors discovered would affect the value of the unearned premium credit calculated against the new treaty. However, it is not the intention to allow the return of premium for policy cancellations or amendments after 1 April 2025.

3.3.1 Questions and answers

If any E&O remains outstanding after 31 March 2026, and a Member has collected a premium from the policyholder, what will the Member do with the funds if the premium is not paid to Pool Re?

The Member premium collected from the policyholder is not directly related to the Pool Re Scheme. It is for the Member to assess how they treat these premiums within their own governance arrangements.

What is the position under the new Scheme for E&Os?

Article 14 of the 2025 Reinsurance Agreement requires Members to notify any material errors or omissions. Where an E&O is material, Pool Re are able to amend the Treaty premium and/or Minimum Retention to reflect what would have been imposed had accurate information been provided. In these circumstances the Treaty terms can be amended, rather than individual cases by case premium adjustment as per the existing Scheme.

Section 4 Unearned premiums when transferring from the current risks attaching Scheme to the new Scheme

This section sets out the method Pool Re will use to calculate unearned premiums at the inception of the new treaty on the 1 April 2025 in order to return them to Members. This is necessary because premium for the new Scheme will have been calculated using exposure data which includes policies that Members will have already declared and paid premiums for via the QPDs under the old Scheme.

Pool Re has introduced this “unearned premium” mechanism to avoid charging Members twice for policies that “straddle” the transition from the old Scheme to the new.

4.1 Current premium position

Currently, Members pay ‘written’ premiums quarterly in arrears, which earn out over the period of a year. This means that when the existing Scheme is “cut off” there is a risk that certain Members may have paid premium to Pool Re, that will also be due premiums under the new Scheme. As the existing Scheme is being portfolio transferred to the new Scheme, Pool Re will return unearned premiums.

The process of calculating the unearned premium as accurately as possible means making two calculations, one at the end of 2024 and one at the end of 2025.

4.2 Calculation of unearned premium

Due to certain limitations the calculation of the unearned premium cannot be done precisely because:

- (1) the QPD data doesn’t have an inception date (it only has the underwriting quarter) and doesn’t have expiry dates; and
- (2) exposure return data does not have premium, nor does it contain all policies covered over a period of time e.g. those not in force at the snapshot date of the 30 June.

As such, Pool Re will adopt the below set out process to estimate the earned/unearned premium split:

- (1) Take the 2024 Exposure Data (in force as at 30 June 2024) and estimate the premium pursuant to the UW Manual corresponding to these risks.
- (2) Work out the number-of-days-in-force as at the first day of the April following the inception
- (3) Per Member, per underwriting quarter, sum up our written and earned premium estimates derived from the exposure submission data.
- (4) The ratio of this earned to written premium is the Earned Premium % per member, per underwriting quarter.
- (5) Apply these ratios to the actual QPD premiums, per underwriting quarter, to get the earned/unearned split i.e. use estimated premiums (from Exposure Submission) to derive earned ratios, which are applied to the actual premiums.

- (6) The first quarter premium will be zero in recognition of the overlapping, in-force exposures in the first year of the new Scheme. In the first year the 100% premium will be distributed per quarter in a ratio of: Q1 0%, Q2 25%, Q3 25% Q4 50%.
- (7) In December 2025, Pool Re will repeat the exercise with the 2025 Exposure Submission information and recalculate the Q3, Q4, and Q1 earned ratios, to be used as a true-up.
- (8) Once Pool Re has completed the full calculation of the unearned premium in December 2025, it will return/collect any premium owed as a separate payment to Members during Q4 of the 2025/2026 treaty.

This method is the most appropriate way to calculate unearned premiums fairly based on the data Pool Re already collects. It is necessary because some Members do not have policies that incept uniformly through the years or quarters.

4.3 Member challenges

If a Member wishes to dispute the return premium amount that has been calculated by Pool Re they must demonstrate to Pool Re what they believe the correct value should be. They will need to do this by providing a risk bordereaux containing:

- (1) Policy numbers (that can be matched to the exposure submission)
- (2) Inception and expiry dates
- (3) Premiums:
 - (a) such that the premiums match the ceded premiums precisely; and
 - (b) the earned/unearned split can be calculated in the usual way (assuming uniform daily earning per risk) from this file.

Pool Re must be fully satisfied with the Member's workings in order for a challenge to be upheld.