

Have your say – consultation ends April 30 2025



“ MARKET CONSULTATION ”

Potential to re-integrate terrorism as a standard peril in SME insurance products



Shape the market
- share your views

POOL^{Re} 
REINSURING TERRORISM RISK

Foreword

We are seeking your views on our proposals to ensure that they work for all stakeholders and will drive practical benefits and meaningful change.



Pool Re was established in 1993 as a national resilience entity to support the British economy in the face of the terrorist threat. Today we proudly reinsure some £2.3 trillion of commercial property assets across the country, from airports and shopping centres to farms and football stadiums.

Despite our successes, over the years Pool Re's scheme has struggled to make significant inroads with Small and Medium-sized Enterprises (SMEs), which comprise the vast majority of British businesses. The COVID-19 pandemic highlighted the economic vulnerability of SMEs, which typically lack the resilience to survive large-scale shocks if they cannot trade for several weeks.

Currently, it is estimated that only 4% of SMEs have terrorism insurance cover, although a much larger proportion will likely believe they are covered. This gap in expectations and protection is one we should address in the interest of economic resilience. We have a collective obligation to do more and to challenge the notion that there is a market failure in this critical sector of the economy.

This market-wide consultation represents Pool Re's most meaningful attempt to date to increase SME take-up of terrorism cover. The proposals on which we are now consulting are designed to facilitate the industry in reincorporating terrorism cover into commercial property policies as a matter of standard practice. Achieving this would be a return to the pre-IRA mainland bombing era when terrorism was part of a standard all-risks policy.

This consultation is launched as the Government prepares to pass a new Act of Parliament (Martyn's Law), which will raise awareness of the terrorism threat. However, this law will not apply to many of the country's smaller businesses and will not, on its own, significantly increase insurance penetration.

We are seeking your views on our proposals to ensure that they work for all stakeholders and will drive practical benefits and meaningful change. Your input is crucial, and we encourage you to participate in the process as comprehensively as possible.

Thank you in advance for your consideration and contribution.

A handwritten signature in black ink, appearing to read 'T. Clementi'. The signature is fluid and cursive, written over a light blue background.

Tom Clementi
CEO, Pool Re



Background to the consultation

Members will be familiar with the imminent transition to a Treaty reinsurance mechanism for the Pool Re scheme.

The current scheme

Pool Re is a mutual reinsurance company, established in 1993 to address the market failure for commercial property terrorism insurance. Pool Re ensures that affordable property insurance is available to all businesses across Great Britain, through almost 130 Member companies who own us.

Since its creation in 1993, Pool Re has priced each risk presented by a Member by applying a tariff to the total sum insured, with the tariff used being determined by the location (or zone) in which the property is situated, and where Zone A represents geographical locations assessed to represent the greatest terrorism risk, through to Zone D, comprising locations considered to be the least at risk.

Our new reinsurance treaty

Pool Re will be transitioning to a new annual catastrophe reinsurance treaty on 1st April 2025. Amongst other changes, the scheme will move to pricing terrorism risk for Members on a portfolio rather than on an individual risk (or facultative) basis. For Members, this will simplify and modernise the underwriting and processing of terrorism (re)insurance and should facilitate the provision of terrorism insurance to more businesses in Great Britain.

Tackling the protection gap

Within the treaty project, Pool Re has also been considering a number of related issues, the most important of which is the significant resilience and protection gap that exists due to the very low numbers of SME's purchasing terrorism insurance. Very few SME's currently elect to buy terrorism reinsurance: our assessment is that the take-up rate is around 4%. Of even greater concern, many businesses do not appreciate that terrorism cover is not included within the package products they purchase. This is not a new issue and is something Pool Re tried to address within the current scheme structure but without success.

Background to consultation (continued)

The 2017 UK terror attacks in Manchester and London Bridge reinforced the fact that not only do few SME's have terrorism insurance, but terrorism is also not an issue they even consider within their assessment of risk. This is an issue for which the Government is now bringing forward legislation, known as Martyn's Law.

This law will compel businesses and local authorities to assess their exposure to terrorism attacks and raise their preparedness. This legislation will be helpful and will undoubtedly raise the profile of terrorism risk amongst UK businesses, but in and of itself it is unlikely to result in increased penetration of terrorism insurance.

Increasing take-up

Mindful of this, we have consulted informally over the past couple of years with Pool Re Members, BIBA and industry groups such as the Federation of Small Businesses, together with HM Treasury and the FCA. Our assessment is that there is a broad consensus that we should collectively raise the profile of terrorism insurance and seek to ensure businesses have the opportunity to be protected by terrorism cover at a price that better reflects the risk to SMEs, especially those in the least risky areas such as towns or non-urban areas.

Embracing digitalisation

To assist in this objective, one of the other issues we are seeking to address is the interaction between terrorism cover and the way SME business is transacted, together with the scope and nature of SME commercial property insurance products sold. The commoditisation and automation of SME commercial property insurance products across the industry presented challenges under the existing Pool Re scheme. Given the scheme architecture dates back to pre-digital times, and is based on quoting and binding individual policyholders, the scheme has been unable to accommodate Members' modern approaches to transacting business. Pool Re's new Treaty has been designed to complement Members' automated approach to the placement of risks.

Modernising our proposition

The issue of how terrorism insurance is sold or packaged will always be solely for each Member to decide as part of their wider business strategy. What Pool Re is committed to providing is a simpler, modern framework, pricing Member portfolios in a more contemporary manner, which could facilitate the inclusion by our Members of terrorism cover in package products in a way that is not currently possible.

Seeking your views

The purpose of this consultation is to seek stakeholders' views on a number of key issues relating to SME commercial property terrorism insurance before we present a formal proposal to our Board. The consultation will run until 30 April, and we would encourage you to share your thoughts and views with us, to help inform any future changes. We aim to outline our plans in the second half of the year.



The importance of SME's to the UK economy

A 2022 study by the Federation of Small Businesses found that only 4% of small businesses in the UK had purchased terrorism insurance. Pool Re Members have been able to offer discounted rates to SME's since 2015 but this has little effect on take-up.

Moreover, many small business owners admitted to having no disaster recovery or crisis management plans in place. Pool Re Members have also expressed concern that post-loss, some affected policyholders have believed they were automatically covered.

Whilst the probability of being caught up in a terrorism incident is thankfully low, the financial impact can be very substantial. Given the importance of small businesses to the UK economy, we believe this situation should be addressed, particularly as the sector is characterised by a relatively low resilience to financial shocks. The forthcoming introduction of Martyn's Law, which will compel many SME's to think about terrorism risk, provides a window of opportunity which should help us drive increased terrorism insurance penetration.

Impact on Expected Loss

With the modernisation of the Pool Re scheme taking effect from 1 April 2025, we have considered what additional changes could be implemented on the back of the new treaty to help Members drive SME penetration. The development by Pool Re of a more sophisticated terrorism pricing model facilitates more scientific and risk-reflective terrorism pricing. The new treaty should allow for this pricing to be deployed in a way that has simply not been possible under the outgoing scheme.

The model can recognise that the addition of a large volume of low-risk terrorism exposed SME policies could make little difference to Expected Loss (EL) for either an individual Member insurer or the Scheme as a whole. This means the true 'per risk' technical price for these additional exposures is, with exceptions for risks that do correlate with our higher risk postcodes, very low.

Rationale for change and proposed changes by Pool Re (continued)

Pool Re proposal to re-integrate terrorism as a standard peril in SME insurance products

We are seeking your views on the following approach:

- To increase penetration we want to support Members to reincorporate terrorism into package products as standard;
- Under Pool Re's new Treaty, from 1 April 2025 its terrorism reinsurance will be priced for Members at portfolio level not, as is currently the case, using a tariff applied to individual risks;
- This initiative is aimed at allowing Members to reintroduce terrorism cover into SME products as standard. The choice as to whether to reintroduce terrorism cover would be down to each Member, but where Members elect to provide terrorism to all policyholders in a designated portfolio, the reinsurance would be priced at portfolio level in a cost-effective and administratively simple fashion. Members would decide their own insurance pricing strategy to reflect their own view of risk;
- Providing terrorism cover across these portfolios as standard in turn allows Pool Re to apply differential reinsurance pricing given the impact of adding a large volume of non-target terrorism risk (most SME's are based in Zone C and very few in Zone A). Working with 3 large Members, Pool Re undertook sample portfolio analyses of their SME books, which showed 80% of policies by value have Total Sums Insured ("TSI") of less than £5m, and 88% are in the lower risk Zones C or D under the outgoing Scheme rules;
- The TSI cut-off for the definition of what constitute a 'SME risk' is a key issue for this consultation and stakeholder feedback is essential in order that the right approach is selected. Pool Re is conscious that the types of risk considered eligible for 'SME' products varies between Members, and we understand that many Members allow access to SME products for policyholders with up to £25m or £50m TSI. However, automatic inclusion of risks in package products that generate larger premiums for terrorism risk presents challenges, especially where terrorism cover is not currently provided. We, therefore, seek feedback on the relative merits of including larger value risks from day one of this initiative over the possibility of introducing larger risks to the initiative over time. What is clear is that Pool Re must apply a simple, clear and consistent methodology for the classification of risks eligible for inclusion in the SME treaty pricing proposal.

In recent years Member retentions under the scheme have increased significantly as part of the strategy agreed with HMT to return risk to the market. This means that any increased SME take-up will increase the exposure to Member retentions, especially given the lack of exposure density in most areas where SME's are located. Much of this additional SME risk will be in Zones C or D and not the postcodes historically considered to contain most terrorism targets.

Actuarially, this would allow Pool Re to offer significantly discounted reinsurance premiums for large SME portfolios, thereby returning to Members control of the insurance premium to be charged to policyholders. This would require Members to consider their own pricing approach to reflect geographical exposure and their own retention.

Questions to be considered by Members and key stakeholders



We are seeking feedback from Pool Members and other interested parties into our objective, approach and the practical implementation of the suggested changes to our scheme.

We have divided the consultation questions into two sections; first, those aimed at all stakeholders, namely, Pool Re Members, intermediaries, policyholders, industry bodies, and the wider insurance market; and, secondly, questions addressing the specifics of how the initiative might work in practice and, therefore, targeted specifically at Pool Re Members. This distinction does not preclude the wider stakeholder group from providing responses to the questions aimed principally at Members, should they so wish.

Although we would like specific feedback on each of the questions below, respondents are free to choose which questions they answer. Respondents are also encouraged to provide additional feedback on any other issues relating to the subject matter of this consultation that they believe to be relevant.

The specific matters to which we would like responses are set out on the following pages.

Questions to be considered by Members and key stakeholders (continued)

Questions for any stakeholder or interested party

With the key objective of this proposed SME initiative being to increase significantly the number of small business that buy insurance for commercial property terrorism in Great Britain:

1. Why do you think small businesses don't buy terrorism? Is it because they can't afford it, even though the premium might be £50 or £100, or is it related either to an unwillingness to buy more insurance, or is it something else?
2. What proportion of small businesses do you think engage in any form of discussion regarding terrorism coverage?
3. Do you think the re-inclusion of terrorism cover within package products is the best method to achieve take-up and improve resilience, or do you have alternative suggestions?
4. What challenges do you think Pool Re and its Members might face in seeking to reintroduce terrorism cover to small business commercial property products as standard?
5. Do you think re-packaging is easier to achieve with very small businesses (i.e. those with less than £5m total sum insured), where the technical price for terrorism cover would likely be very low, especially in non-city locations?
6. Do you think Pool Re's proposed SME initiative could distort the commercial property (re)insurance market and, if so, how?
7. In light of the raised profile of terrorism risk expected once Martyn's Law is enacted (sometime in 2025), we are interested in how the provision of terrorism for SMEs might be structured so as to encourage greater take-up? What options are available to achieve a significant uptake in terrorism penetration?

Questions to be considered by Members and key stakeholders (continued)

Questions for Members

One of the key desired outcomes of this consultation is to receive Member feedback on the types of SME risk that should be included within this initiative. Members should note that under the Pool Re proposals, once Members elect to include terrorism within a designated portfolio/product, **all policies within that segment must provide terrorism cover**. The cut-off ceiling for SME risks (i.e. the largest Total Sum Insured (TSI) that would qualify for this initiative), could be within the range of £5m to £50m. Based upon these parameters, would Members comment on the following questions:

- Should the SME initiative include all SME products and segments up to £50m TSI or would this be too high?

Notes:

Risks with TSI up to this level would likely bring in larger risks that are either more likely to, or already do buy cover from Members or from the alternative market.

It is possible that for risks with £25m+ TSI the Technical Terrorism premiums could represent the largest component of the cost of a package. Could this represent a challenge given (i) most SMEs do not currently buy cover; and (ii) any additional charge would likely be apparent and potentially material to the policyholder.

- Alternatively, should this initiative focus solely on the small end of SME segment (up to £5m or £10m TSI)?

Note:

Taking into account that under any SME initiative, to qualify for a reinsurance discount from Pool Re, the product will need to include terrorism cover as standard and without exception, Members may wish to reflect on whether, for risks with TSI of £10m+ where higher terrorism premiums to policyholders are likely, they foresee any issues with this approach (e.g., brokers seeking for terrorism cover to be removed from the package).

- If a higher ceiling is chosen (such as £25m or £50m), would Members comment on how they might deal with issues caused by the requirement to include relatively high terrorism premiums (including those in Zone A/B) within their package, especially for renewals where the policyholder doesn't currently buy terrorism cover?

Notes:

In answering this question, Members might wish to consider the fact Policyholders will likely want to understand why their premium has increased from say £20,000 to £23,000 and once they appreciate it is solely for terrorism, they might decide they don't want that cover.

Given the proposed initiative would require all policies within the product/portfolio to be included, do you consider that this would cause 'Treating Customers Fairly' (TCF)/Consumer Duty issues?

Policyholders faced with increased premiums for terrorism cover may then approach other Members who have not elected to take part in the SME initiative or non-Members, either of whom might be able to offer a cheaper package without terrorism.

Questions to be considered by Members and key stakeholders (continued)

11. Could this initiative initially focus solely on the small end of SME e.g. those with TSI of less than £5m or £10m? Larger risks could be added later? What might the benefits or downsides of adopting this staged approach be?
12. Could Members include terrorism for products with TSI below £10m and provide an optional quotation for risks above this ceiling?
13. How will Members approach the issue of re-integrating terrorism cover within package products?
 - a. Could this happen for all businesses, or would it be possible to select by size/segment?
 - b. What TCF/Consumer Duty or other regulatory issues might Members face in implementing their preferred approach?
14. Are there any regulatory issues in offering more competitive terrorism insurance to certain customers (i.e. SME in the designated portfolio/product) but not others? For example, a Member chooses to include terrorism for all hotels but not all offices.

For each answer given above, please provide the reasoning behind your response.

15. Should the cut-off ceiling be Material Damage and Business Interruption combined? If so, how should the initiative deal with the BI element given some SME policies have sums insured whereas others have automatic limits (where no BI exposure is collected)? Additionally, should the ceiling be the total sum insured on all policies, whether insured with one insurer or multiple, for a given policyholder?
16. Pool Re now has the ability to price SME terrorism at portfolio level in a more risk reflective manner and the reinsurance price will reflect this capability. What approach might Members take to pricing terrorism in their SME products?

Notes:

In answering this question, Pool Re would encourage Members to consider whether they would price:

- *at portfolio level (i.e. all SME risks of any kind); or*
- *at SME product level (i.e. different pricing strategy depending on the SME products, say hotels, shops, or offices); or*
- *by adopting a flat premium approach to smaller risks, or adopt an alternative approach.*

17. It would be helpful to understand Member perspectives on any competition law, TCF or Consumer Duty issues they foresee from pricing terrorism differently within their SME book. Would Members please share any perspectives they have in this regard?

Note:

This question relates to the possibility that terrorism would become much cheaper for small risks in lower risk areas than larger risks in more exposed postcodes.

Questions to be considered by Members and key stakeholders (continued)

18. Again, from the TCF/Consumer Duty perspective, would Members comment on issues they could face from policyholders:
- That demand that terrorism be excluded on a package policy that includes it as standard
 - If there was not the ability to allow a return/lower premium if terrorism was deleted, especially given Members don't allow policyholders to delete perils on package policies. Would this cause difficulties?
 - Who already buy terrorism but would now expect their premium to be absorbed into the package like all other policyholders.
 - Where the £5m/£10m/£50m SME limit is exceeded and the policyholder no longer qualifies for special consideration as an SME? How would Members manage the large premium difference when the TSI might have only increased by a small amount?

19. If the new approach to SME initiative within Treaty was approved, would Members continue to underwrite terrorism through a separate section within their package policy or would they integrate terrorism as a peril within the Property Damage/Business Interruption sections?

Note:

Pool Re is interested in this issue as it could have implications for matters such as exposure data collection and/or the ability to extract terrorism specific data, necessary for the design and underwriting/pricing of any incentive scheme.

20. Distribution Channels – taking into account the need to ensure equal access for policyholders to the incentives available under any SME initiative that may be introduced, do Members foresee any challenges in ensuring policyholder access regardless of the distribution channel (e.g. broker, scheme, direct and MGA) used?

Note:

Pool Re would use answers to this question to aid the design of any SME initiative, seeking the widest reach of businesses possible whilst minimising different outcomes for customers' terrorism cover depending on channel choice.

21. Customer Expectations – what do Members think their customers require from a more consistent and packaged terrorism cover? Please comment upon product consistency (i.e., is it always offered/included in SME products or does that differ between insurers or even on different products)? What flexibility around a choice of standard perils would a customer usually be offered? How do Members approach the pricing of additional perils?
22. How will Members approach Class B (NDBI) cover on any packaged terrorism offer given some Members already include NDBI where Class A cover is purchased?

Questions to be considered by Members and key stakeholders (continued)

23. The 'all or nothing' rule (i.e. a policyholder must cede all its eligible property to the scheme) could be relevant to any changes to the approach to SMEs, especially given the automated nature of SME underwriting. Can Members comment on how the spirit of this rule would be maintained?
24. Members would be free to choose whether to participate in this SME initiative, so it is likely that some will and others won't. How do Members see this playing out in the market if some insurers reintroduce automatic terrorism cover to their products and others don't?

Note:

This would mean there would not only be a price differential but also a cover difference.



How to take part in the consultation

We would encourage all interested parties to respond to our online questionnaire before the end of April with your views and perspective on our proposals. The consultation will be open on 28th February and close on 30th April 2025.

Step 1

Read the full supporting document to understand the background and rationale behind the consultation.

Step 2.

Fill in the online questionnaire to share your views and perspective on our latest proposals [accessed here](#).



If you have any questions regarding the consultation, please don't hesitate to reach out to our [Underwriting team here](#).



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