



## **Power50: Pricing the rise of Islamic State**

By Tariq Al-Salihi, Head of War & Terrorism Advent

Director – Business Development Fairfax International

The rapid and unprecedented rise of Islamic State (IS) has quickly transformed the political landscape and threatened the territorial integrity of a number of nations in the Middle East. It has also had a profound impact on the international terrorism and political violence insurance market with underwriters having to quickly come to terms with the changed reality presented by this new, alarming and potentially lasting threat.

Demand for political violence insurance products to mitigate the threat presented by IS has understandably increased significantly in Iraq, with heightened awareness of and interest in coverage also becoming increasingly apparent in Lebanon and Jordan. However the market's limited appetite and capacity for these territories, particularly Iraq, and the resulting rating levels has served to dissuade greater uptake.

Each of the countries impacted by the IS threat presents insurers with unique challenges which must be recognised and overcome. The group's rapid success with the acquisition of swathes of Iraqi territory in the predominantly Sunni region of the country can, in part, be attributed to the staunch anti-Sunni stance and corresponding policies of former prime minister Al-Maliki. The challenge for the recently appointed Haider al-Abadi is to appease quickly the disgruntled and disenfranchised Sunni population, after more than a

decade of marginalisation since the fall of Saddam Hussein, by integrating them into Iraqi politics

For insurers operating in Iraq the challenge is to come to terms with the fluidity of the situation. The speed with which IS was able to gain a foothold across a large section of northern Iraq, highlights the difficulties which underwriters face in accurately determining the risk management requirements of insureds over a twelve month period. The market's limited capacity for Iraqi perils has also been further stretched by the extension of political violence coverage to many insureds.

While the instability caused by the IS threat is unprecedented, significant lessons were learnt from the Arab Spring, during which losses in the terrorism and political violence market were exacerbated as a result of the inclusion of business interruption coverage as an add-on. Parallels can be drawn in this regard between the IS attacks on the refineries in Kirkuk and the damage caused to major infrastructural projects in Egypt and Libya during the Arab Spring.

### **Appropriate pricing**

Business interruption losses have, to an extent, been mitigated with underwriters now placing a greater emphasis on working with clients and brokers to develop a better understanding of their business interruption exposures. This closer collaboration and understanding has in turn allowed for the provision of products which provide more appropriate pricing and terms and conditions.

The violence experienced in Iraq has already had an enormous impact on events in Syria, with large amounts of cash and weaponry seized by IS in Iraq now presumed to be finding their way across the border. However, the conflict in Iraq, has also had a knock on effect in certain parts of Lebanon, notably Aarsal in the Bekka region, which was briefly overrun by IS forces in August. Lebanese forces retook control of the town after a week long battle. Lebanon had already been experiencing the negative impact of the civil war in Syria for some time and the emergence of IS has further complicated this already fractious territory.

IS undoubtedly poses a clear and potentially longstanding threat to those countries in their immediate path and the possibility that the conflict could spill over into neighbouring territories such as Jordan, Turkey and the wider Middle East and north Africa region. The insurance market's response to the rise of IS has been positive and disciplined with far greater attention paid to wordings and coverage.

But clear challenges remain. Central to these are the IS forces' complete disregard for international borders and their capacity for rapid movements into areas which had previously been largely untouched by the conflict. As a result kneejerk reductions in capacity from regions of heightened tension by transferring it to neighbouring areas, where the conflict at time of writing is minimal, can be ill advised. Furthermore, the complexities surrounding definitions of coverage and jurisdictional interpretation of wordings must be resolved to combat further this new threat.

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