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Counter-Terrorism and Border Security Bill: terrorism reinsurance arrangements and the process of certifying attacks

Further to my letter of 14 August, I am writing in response to the concerns you raised in Public Bill Committee on 5 July about the keeping terrorism reinsurance arrangements under review by Pool Re (Col 180), and how the Government can improve the process of certifying attacks for insurance purposes (Col 172). I hope that this response will reassure you by outlining the steps being taken to address these important issues.

Certifying an incident as an act of terrorism for insurance purposes

As I alluded to in the Public Bill Committee in July 2018, there is an established contractual process under which HM Treasury can certify an incident as an act of terrorism for the purposes of its agreement with Pool Re under the Reinsurance (Acts of Terrorism) Act 1993. This is an important process designed to give the insurance industry certainty as to whether or not a particular incident would be within the scope of the reinsurance or guarantee agreements that the 1993 Act underpins.

Before certifying an incident, Treasury officials first consult with the Police and the Home Office. Based on their advice, the Chancellor of the Exchequer then makes the final decision as to whether or not an event should be certified as an act of terrorism for insurance purposes. This certification process rightly sits with the Treasury as the Chancellor's approval would ultimately be required to authorise any financial support required to Pool Re.

The Government prioritises certification of an event to ensure that Pool Re and its insurer-members can proceed with the claims process. The Government is particularly conscious of the impact that any delays can have for businesses. However, once an incident has been certified, the Government's position is irrevocable and binding; even if new evidence was to come to light subsequently. As such, it is important to remember that in the immediate aftermath of horrific terrorist attacks it is often unclear as to the motivations and affiliations of the perpetrators. As I am sure you will appreciate, this is a vital decision that must not be rushed.

As I acknowledged in the Public Bill Committee, it is clear that there are opportunities for the certification process to happen faster. To this end, HM Treasury, the Home Office, and the Police have agreed an updated certification process that will ensure any future attack is certified as soon as sufficient information on the motivations and affiliations of the perpetrators is available. I have reviewed this updated procedure and am satisfied that it balances the importance of fast certification with the accuracy that is required for such an important task.

Keeping terrorism reinsurance arrangements under review

The effect of your proposal would be to require Pool Re, a private mutually owned company, to commit to a statutory annual review of terrorism reinsurance arrangements. HM Treasury, as the department responsible for the financial services industry, already monitors the insurance market, including the terrorism insurance market, to ensure that appropriate insurance cover is available. I would like to be clear that Pool Re is a trusted and important stakeholder. However, the Government would be concerned that, as a private mutual company operating in the market it would be required to report on, Pool Re may not have the necessary impartiality required for such a statutory assessment.

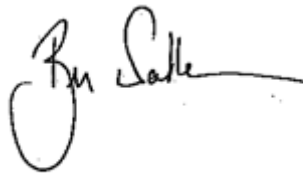
Instead, Government is best placed to make assessments of the nature of terrorism reinsurance requirements by keeping the operation of this market under review. Government Ministers and officials regularly meet with Pool Re and other key stakeholders in the terrorism insurance market. This helps ensure that Government has a broad understanding of the terrorism insurance market and has the ability to address any issues before considering whether government intervention is required.

HM Treasury and Pool Re also work together to ensure that the terrorism insurance market continues to offer appropriate cover. For example, last year, HM Treasury agreed to Pool Re expanding its cover to include damage from terror attacks that are caused by a cyber trigger. Similarly, HM Treasury also recently approved the launch of a discounted product targeted at small and medium enterprises.

Pool Re also already releases a quarterly report of the terrorism threat. It is worth highlighting that there is nothing to stop Pool Re from making recommendations for Government in their annual report or their quarterly terrorism threat report. Likewise, there are other terrorism reinsurers, insurers, and brokers in the insurance market. Many of them publish regular assessments of the terror threat and they are similarly able to make recommendations to Government.

Given the volume of reports from stakeholders in the insurance industry on the terrorism threat and the steps that are already in place to ensure the scheme remains up to date; I am satisfied that no further action needs to be taken in this area.

I am copying this letter to the Economic Secretary to the Treasury, to members of the Public Bill Committee, and I will place a copy in the library of the House.

A handwritten signature in black ink, appearing to read 'Ben Wallace', with a long horizontal flourish extending to the right.

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