Enterprise Risk
Management
Seminar
Making Risk Management Work

30 November 2015 • Sydney

Actuaries
Institute

Terrorism Risk Management

Presentation: Monday, 30 November, 2015

Dr Christopher Wallace, CEO, Australian Reinsurance Pool Corporation

About ARPC

www.arpc.gov.au

Our goal is to be a trusted advisor on terrorism and catastrophe insurance:

ARPC is a Commonwealth Corporate Entity established under the *Terrorism Insurance Act 2003*.

- Insurer clients (cedants)   231
- Retrocession reinsurers   60
- Premium income $128.1 million
- Aggregate sums insured $3.1 trillion
- Pool funding capacity   >$13.1 billion

Washington
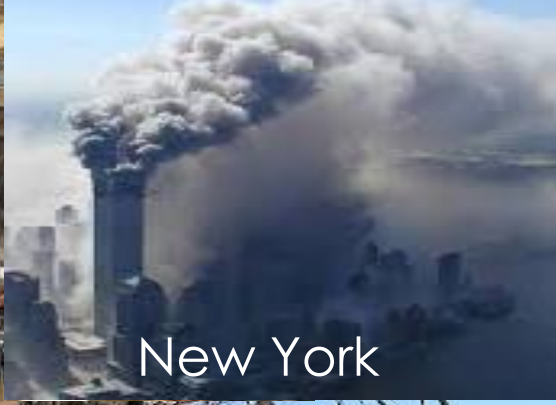
New York

Mumbai

Oslo

Algeria

Bali

Nairobi

Boston

London
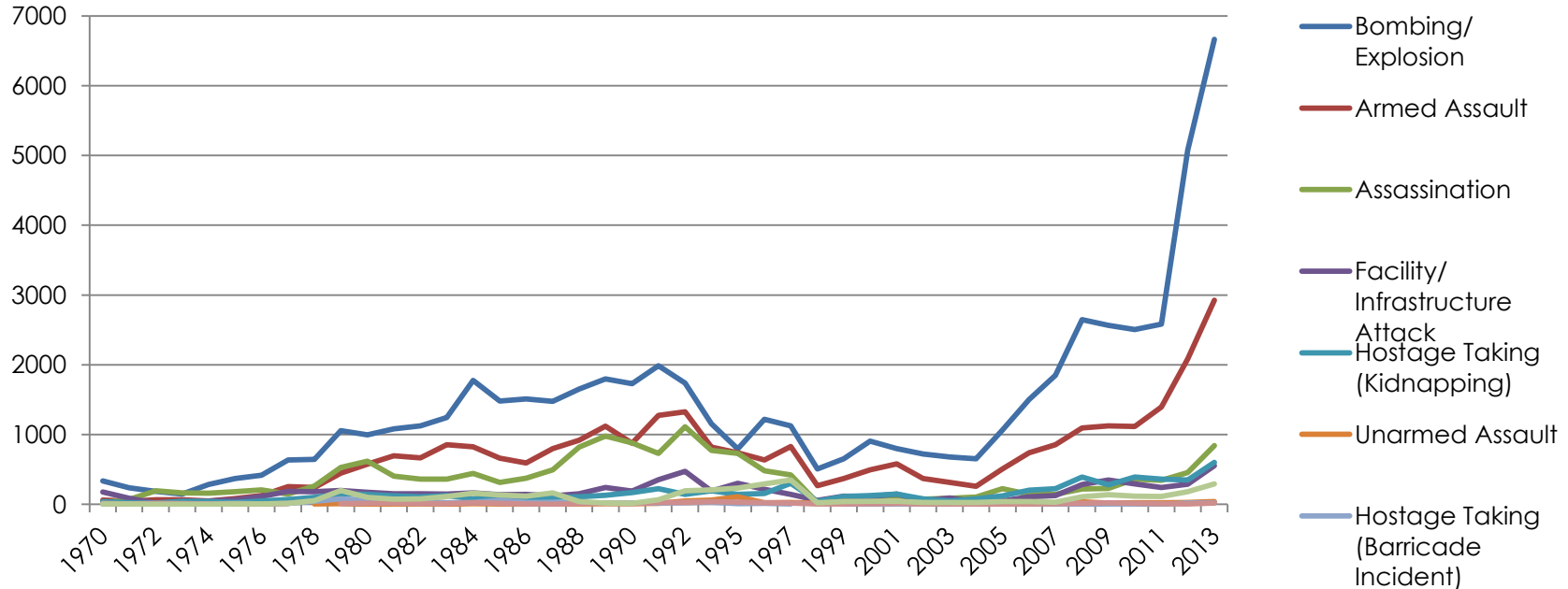
Madrid

Terrorism is a man-made catastrophe

A terrorist attack is a catastrophe, but it has different attributes to a natural catastrophe as an insured peril:

- it can be a *low likelihood* but *high consequence* event;

- small or large, these events can have enormous psychological impact

- frequency cannot be predicted – uncertain;

- severity can be catastrophic in scale – certain;

- losses can be disproportionate to the size of effort to undertake;

- losses are influenced by and mitigated by the security environment; and

- can happen anywhere, with a wide variety of targets.

Global Terrorism Database - Trend

Terrorist attacks have increased fourfold in the last decade. The GTD by University of Maryland shows the frequency of terrorist attacks has increased significantly over the last decade, mostly attributable to bombings and to a lesser extent, armed assaults.

Legend:
- Bombing/Explosion
- Armed Assault
- Assassination
- Facility/Infrastructure Attack
- Hostage Taking (Kidnapping)
- Unarmed Assault
- Hostage Taking (Barricade Incident)

Source: National Consortium for the Study of Terrorism and Responses to Terrorism (START). Global Terrorism Database [Data file]. http://www.start.umd.edu/gtd

Likelihood: ASIO Assessment

"Never before has terrorism been such a direct and immediate threat to our nation and our people."

ASIO Director-General Duncan Lewis in the 2014-2015 ASIO Report to Parliament.

ASIO Assessment 2014/15 (continued)

www.asio.gov.au

- The Syria and Iraq conflict continues to play directly into the terrorism threat in Australia

- While the rapid growth and capability of Islamic State has brought new energy and urgency to the violent extremist agenda, other jihadist groups like al-Qa'ida remain a threat.

- The most likely scenario for an attack in Australia is a low capability attack perpetrated by a lone actor or small group, but the threat of a complex attack, such as a mass shooting or a large explosive device, also persists.

- The ability of Islamic State to influence and recruit new members via innovative use of social media is of particular concern due to its resonance with teenagers aged 14 to 19.

- ASIO has more than 400 high priority counter terrorism investigations underway, a 100% increase on last year.

   In particular, ASIO is currently investigating:

  - 120 Australians offshore fighting with or supporting Islamic extremist groups in Iraq and Syria.
  - Around 170 people in Australia who are supporting Syria and Iraq extremist groups.
  - And, since 2012, ASIO has recommended the cancellation of 135 passports of individuals linked to Syria/Iraq extremists

- In the past year, ASIO has investigated two terrorist attacks and actively engaged in thwarting six other planned attacks in Australia.

Sources: 2014/15 ASIO Report to Parliament; and ASIO Director-General's address to the Security in Government Conference 01/09/2015
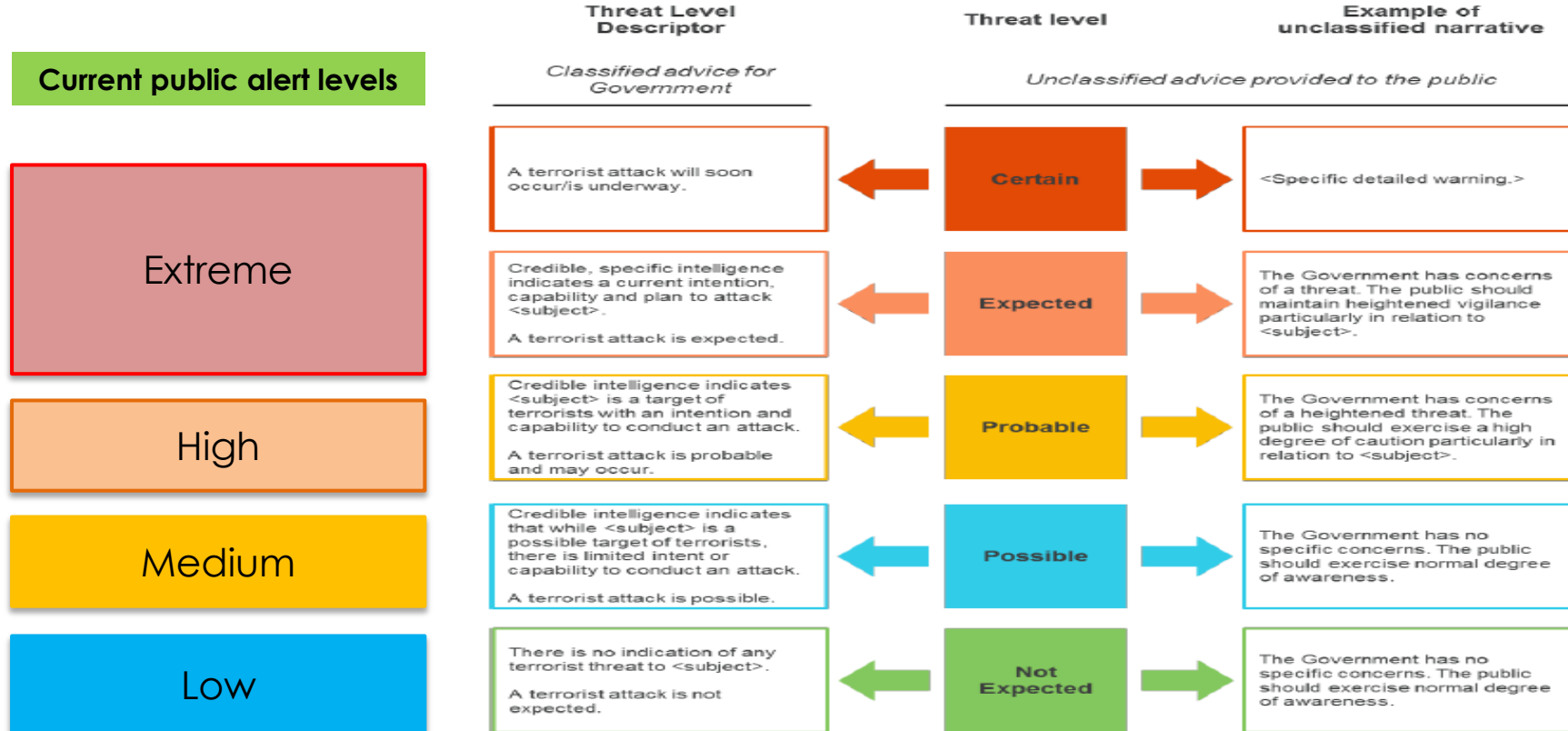
Australian Threat Level System - *Existing*

http://www.nationalsecurity.gov.au/Securityandyourcommunity/Pages/NationalTerrorismPublicAlertSystem.aspx

"Security and intelligence agencies are concerned about the increasing number   of Australians working with, connected to, or inspired by terrorist groups such as ISIL, Jabhat al-Nusrah, and al-Qaeda".*****

- Australia is at **HIGH** level of alert (since 12/09/2014).
- The National Terrorism Public Alert System is a range of four levels that communicate an assessed risk of terrorist threat to Australia. The four levels are:

  low—terrorist attack is not expected

  medium—terrorist attack could occur

  high—terrorist attack is likely

  extreme—terrorist attack is imminent or has occurred.

*Source: 12 September, 2014 Joint Media Release: Prime Minister the Hon Tony Abbott MP and Attorney-General Senator the Hon George Brandis QC
National terrorism public alert level raised to high.

New alert system-in place by end 2015

|	Threat Level Descriptor	Threat level	Example of unclassified narrative
Current public alert levels	*Classified advice for Government*	*Unclassified advice provided to the public*	
Extreme	A terrorist attack will soon occur/is underway.	**Certain**	<Specific detailed warning.>
	Credible, specific intelligence indicates a current intention, capability and plan to attack <subject>. A terrorist attack is expected.	**Expected**	The Government has concerns of a threat. The public should maintain heightened vigilance particularly in relation to <subject>.
High	Credible intelligence indicates <subject> is a target of terrorists with an intention and capability to conduct an attack. A terrorist attack is probable and may occur.	**Probable**	The Government has concerns of a heightened threat. The public should exercise a high degree of caution particularly in relation to <subject>.
Medium	Credible intelligence indicates that while <subject> is a possible target of terrorists, there is limited intent or capability to conduct an attack. A terrorist attack is possible.	**Possible**	The Government has no specific concerns. The public should exercise normal degree of awareness.
Low	There is no indication of any terrorist threat to <subject>. A terrorist attack is not expected.	**Not Expected**	The Government has no specific concerns. The public should exercise normal degree of awareness.

What is Risk Management?

- The discipline of risk management as described in the Australian Standard AS/NZS 4360 and in International Standard ISO 31000 presents a risk level as *a combination of a probability of an occurrence combined with a **consequence** level of the occurrence*
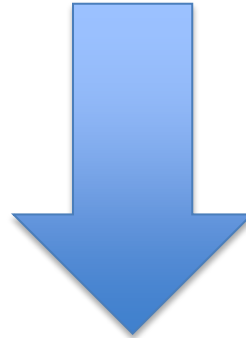
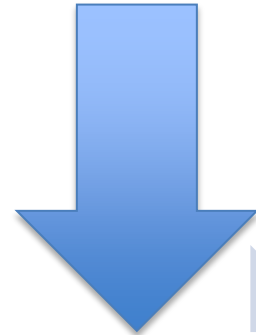# The gap in the old and new terror threat level system is they _don't_ consider _consequences_
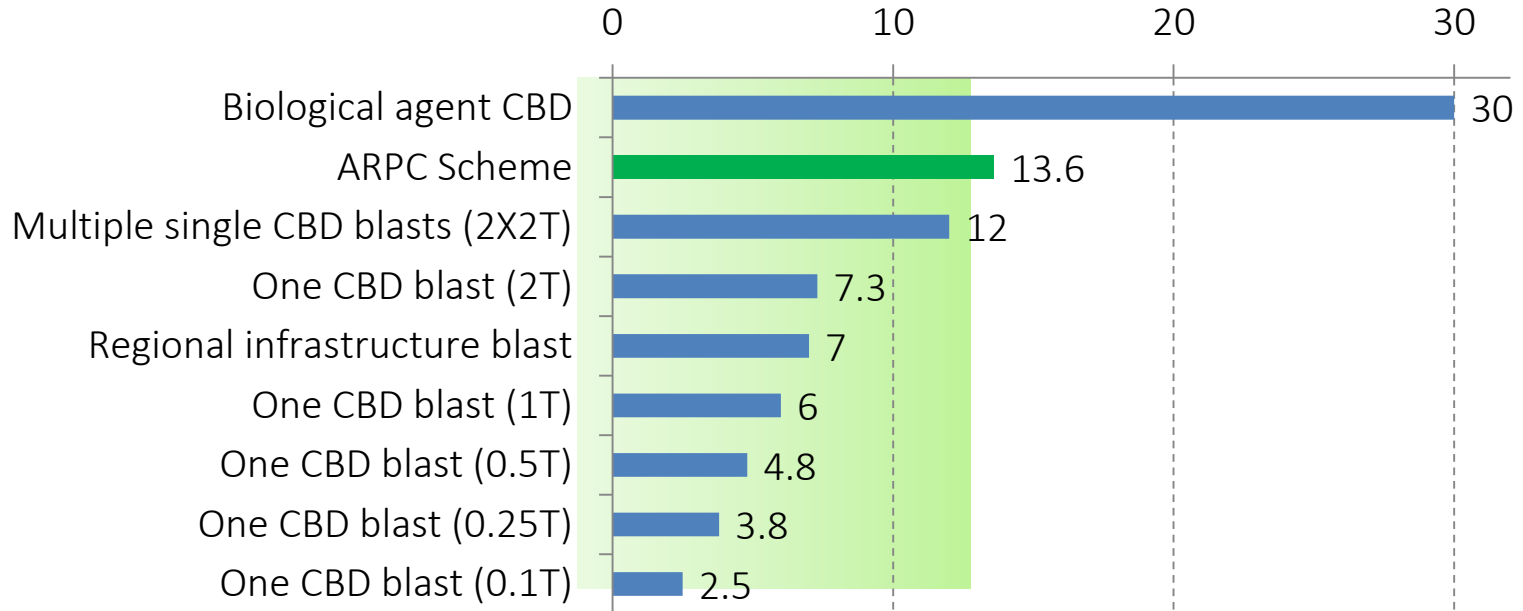
For ARPC's clients:
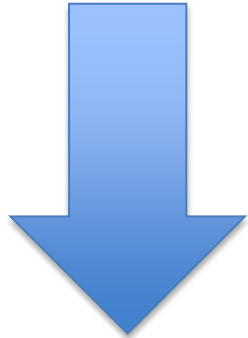
Property damage

Business interruption

Prevention of access

Australian terrorism insured loss estimates

ARPC modelling shows <u>insured losses</u> for blasts and plumes can be catastrophic in scale. ARPC funding capacity of $13.1 billion is sufficient for single blasts and potentially **two** or more large blasts in **one** CBD.

Category	Value
Biological agent CBD	30
ARPC Scheme	13.6
Multiple single CBD blasts (2X2T)	12
One CBD blast (2T)	7.3
Regional infrastructure blast	7
One CBD blast (1T)	6
One CBD blast (0.5T)	4.8
One CBD blast (0.25T)	3.8
One CBD blast (0.1T)	2.5

Australian Government
Australian Reinsurance Pool Corporation

Note: Insured losses are commercial property, business interruption, and public liability

US Terrorism insured loss estimates

Figure 4. Estimates for the Maximum Total Modeled Losses from Attack Scenarios Represented in the Risk Management Solutions Terrorism Risk Model
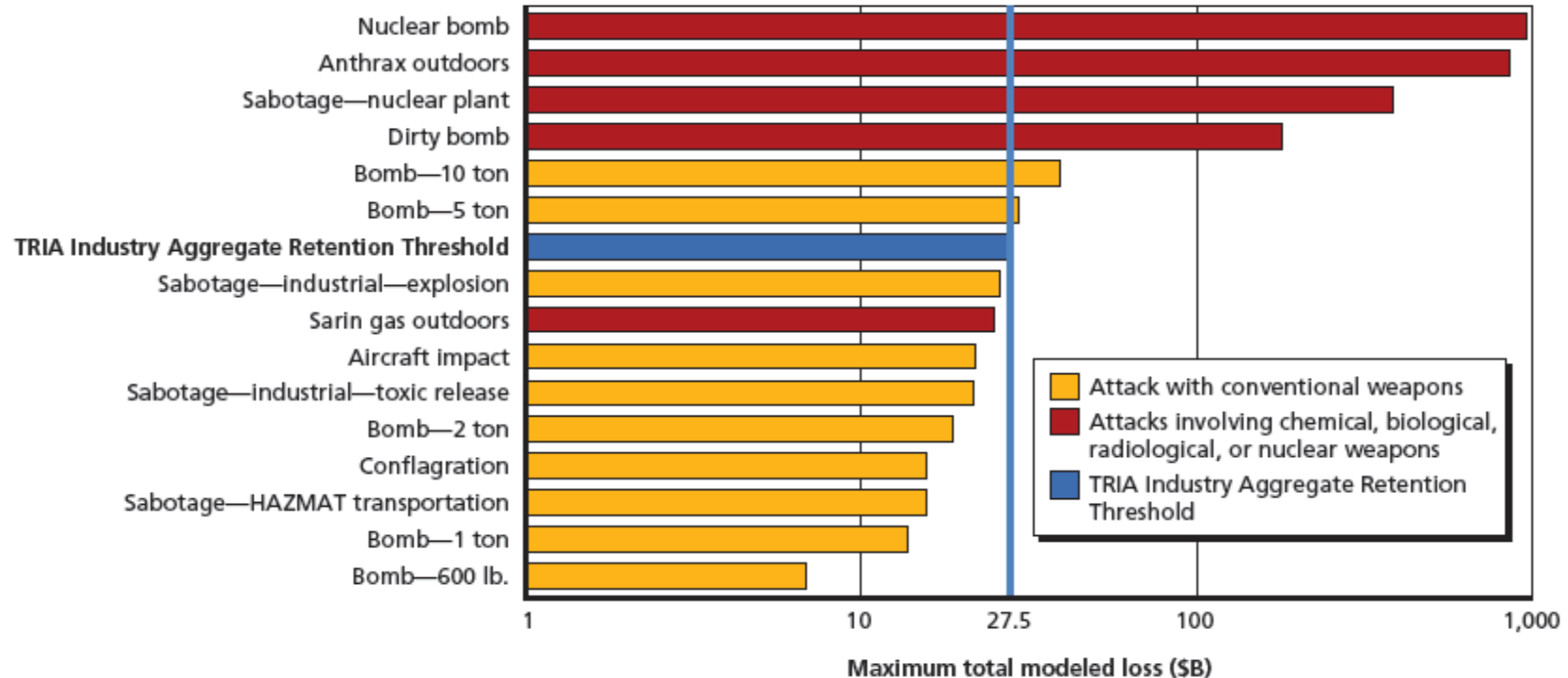
SOURCE: RMS Terrorism Risk Model, 2013.

What are some of the risks for your organisation?

Proximity:
CBD; major sporting fixtures; major events; public transport

Public access:
Building or floor

Industry:
High profile and/or target for activists

Internal:
Disgruntled employee; or employee domestic/family issue

Mitigation
Crisis Management planning

Your crisis management plan should cover ***three stages***:

1. **Preparation and identification** — planning for and identifying a crisis event;
2. **Response** — the planned response to a crisis; and
3. **Recovery** — the process of returning to normal operations.

If there is an event, content should include:

- What the crisis management team should do *immediately*.
- Details of all relevant processes and procedures.
- A key contacts directory, all pro-forma letters, media releases, event logs and any other relevant collateral.

Documents should be easy to find and understand

*PASSPORT TO GOOD SECURITY FOR SENIOR EXECUTIVES**

*Author: Centre for the Protection of National Infrastructure (CPNI) http://www.cpni.gov.uk/

CPNI is the UK Government authority which provides protective security advice to businesses and organisations across the national infrastructure.
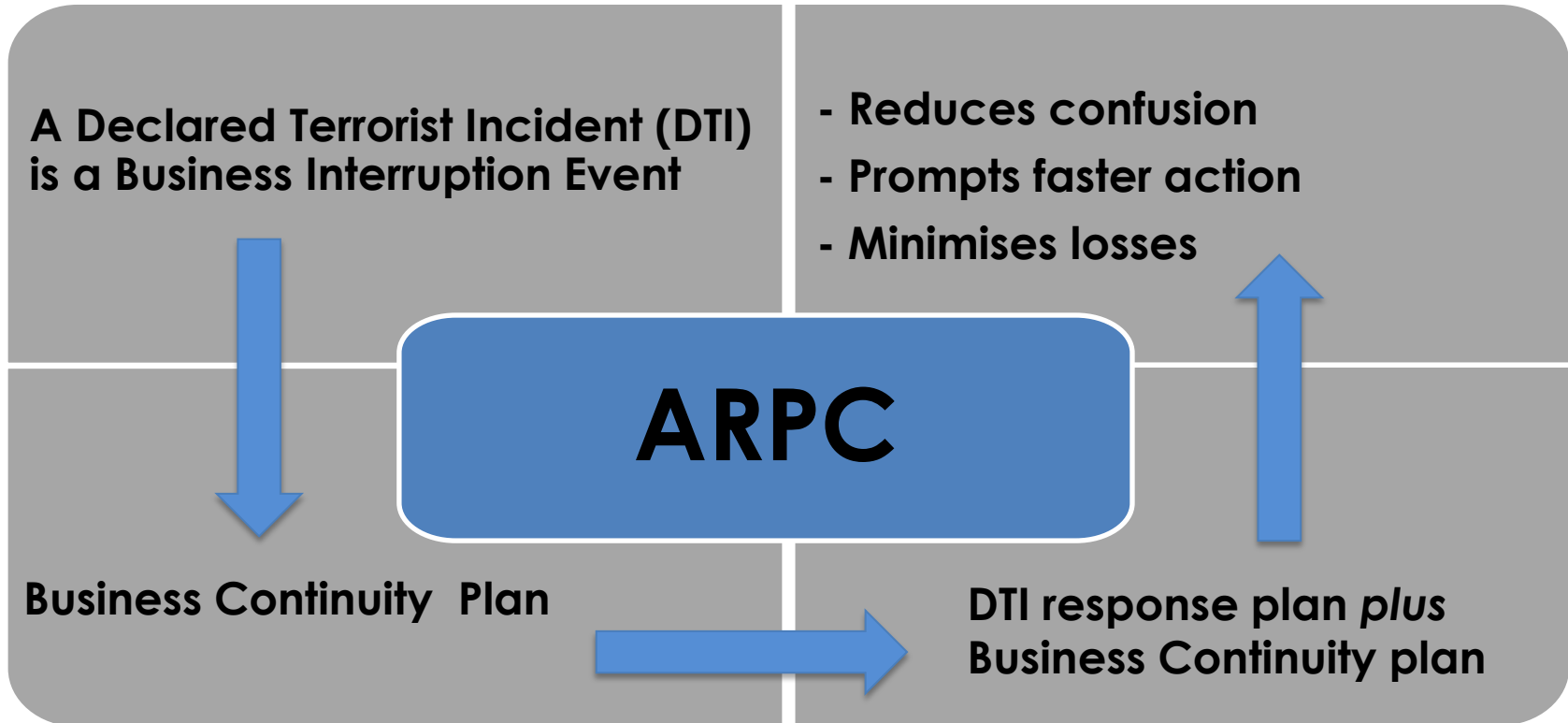
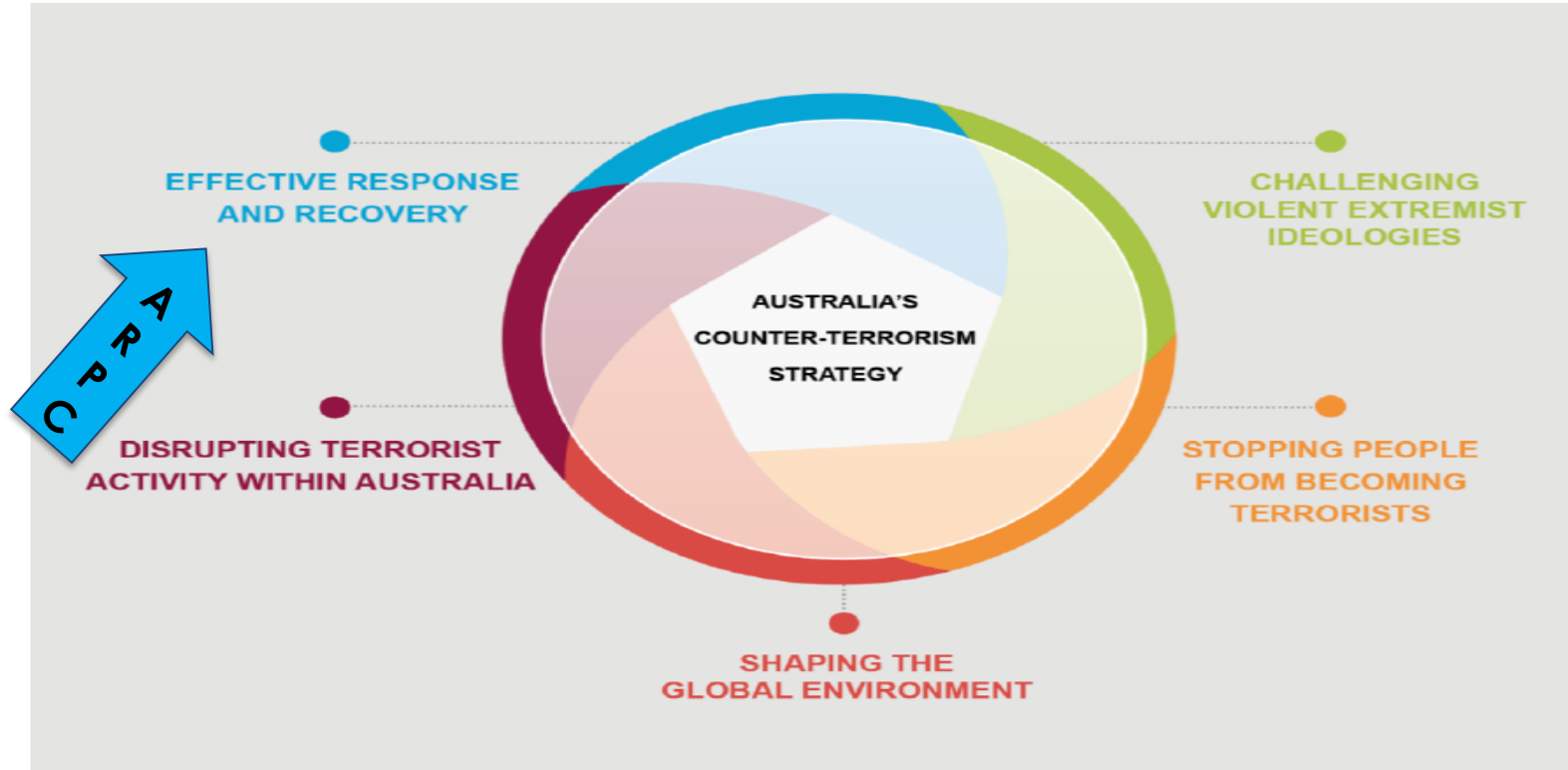# *Key principles for a more secure organisation*

- 1) Good Governance
- 2) Identify your most valuable assets
- 3) Identify the threats
- 4) Adopt a risk management approach
- 5) Mitigate your risks
- 6) Legality, ethics and transparency
- 7) Control access
- 8) Create a strong security culture (soft measures) – "carrots"
- 9) Create a strong security culture (hard measures)- "sticks"
- 10) Protect your information

- 11) Secure sharing of information
- 12) Online social behaviour
- 13) Security pre-screening
- 14) Home and mobile working
- 15) Staff exit strategy
- 16) Build it secure
- 17) Search and screening
- 18) Business Continuity
- 19) Incident management
- 20) Emerge stronger

Process should "cut through the noise" in a crisis
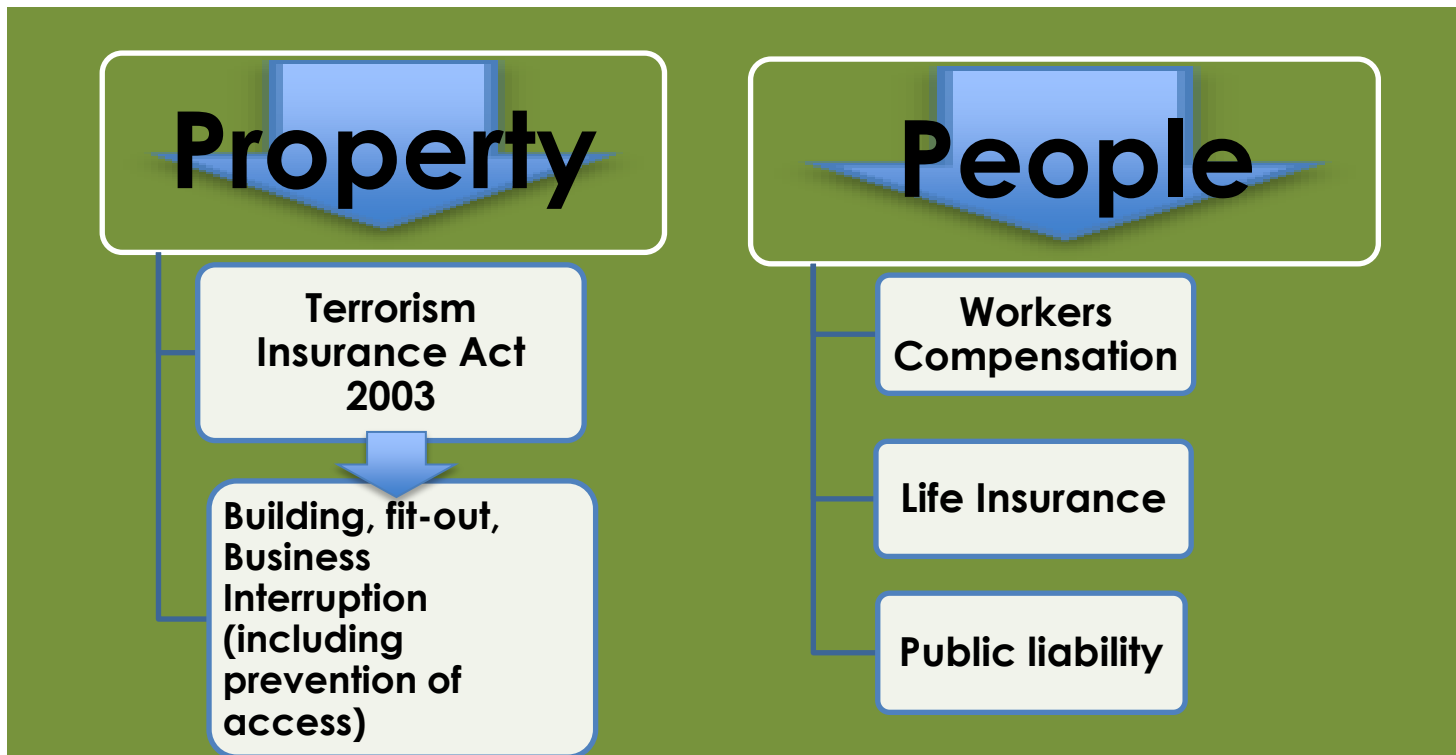## ARPC served well by the processes (below) following Lindt Café incident

A Declared Terrorist Incident (DTI) is a Business Interruption Event

- **Reduces confusion**
- **Prompts faster action**
- **Minimises losses**

ARPC

Business Continuity Plan

DTI response plan *plus* Business Continuity plan

Recovery: ARPC role in national counter-terrorism

Recovery from a terrorist event
Insurance

Property

- Terrorism Insurance Act 2003
- Building, fit-out, Business Interruption (including prevention of access)

People

- Workers Compensation
- Life Insurance
- Public liability

Lessons learned from the Lindt Café siege:

- Modes of attack other than a conventional bomb blast can cause major disruption, for example, a lone actor with a gun

- Disruption to the CBD was significant

- Prevention of access for businesses was a huge issue

What businesses should do:

- Review your Business Continuity Policy

- Make sure you have adequate coverage ($):
  – Check that you have adequate property sum insured
  – Check that your business interruption sum insured is adequate for a major disruption
  – Check that you have an adequate prevention of access sub-limit. Also check the time period over which exclusions to the cover apply (for eg 24 hrs or longer?)

- Businesses *must* be adequately insured to be covered if a terrorism attack occurs

Sydney: 15 December 2014

21

Key messages

- The threat of terrorism is real and increasing globally

- Terrorism is a unique risk as it is a *low likelihood* but *high consequence* event

- A company's risk management process should "cut through the noise" in a crisis.

- In Australia, business interruption, particularly prevention of access, is likely to be a greater source of economic loss than property damage as a result of terrorist attacks

***I would like to take the opportunity to thank ARPC staff who contributed to this presentation today.**