

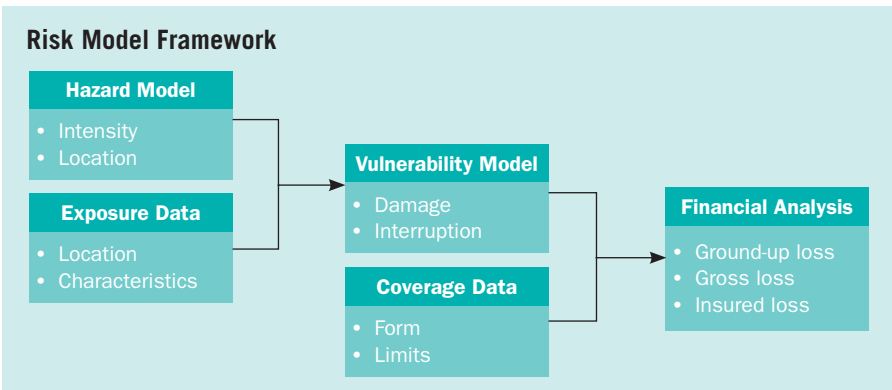
Terrorism: Managing the Risks

- How exposed is our organization to the risk of terrorism?
- If our organization was hit by a terrorist event, how would the economic losses be financed?
- How cost effective is our terrorism risk financing?
- What options are available for financing the risk of nuclear, biological, chemical and radiological (NBCR) events?

Overview

The events of 9/11 made America’s companies pay serious attention to the risk of terrorism. In addition to the immeasurable and tragic human and social costs, the sheer weight of economic losses was enormous. The insured property losses from the attack on the World Trade Center were more than \$32 billion, and losses from future attacks could be much greater. The American Academy of Actuaries estimates an NBCR attack in New York could reach \$778 billion, for example. A similar attack in Des Moines, Iowa, could cost \$42 billion.

In response, companies have tried to measure, control and finance their exposure to potential terrorism losses. Because of the complex nature of the risk, each of these steps has proved challenging. In particular, finding insurance for terrorism risks can be extremely difficult. The Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) is a U.S. government reinsurance program that provides both foreign and domestic terrorism reinsurance, including NBCR, for up to \$100 billion after a \$100 million event has occurred.

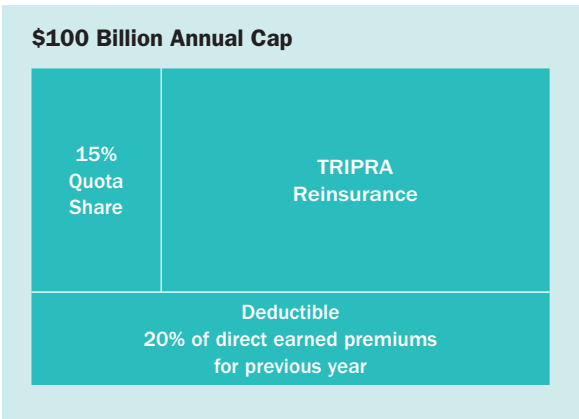


Under TRIPRA, insurance companies’ responsibilities are limited to a deductible and a 15% quota share of covered losses. Although the U.S. reinsurance program does not exclude NBCR events, commercial insurers have refused to offer coverage for these events due to reinsurance deductibles and coinsurance that would leave a portion of the NBCR risk with them. As a result, many organizations still have significant terrorism risks for which they have no risk financing in place.

The Towers Watson Approach

Terrorism risk is complex. Towers Watson can help you assess and manage it by drawing on a tradition of analytical expertise and individual attention.

Risk Modeling. Terrorism risk can be difficult to model, but our processes integrate a broad variety of factors, including actual loss events, experiments, engineering research and other methods to develop realistic financial projections. We work with you to model a wide variety of perils in different regions. The results provide objective input for further analysis of the company’s financial exposure to terrorism risk.





Risk Financing. We understand the complexities of financing, how the commercial market for terrorism coverage interacts with the U.S. government's reinsurance program, and how your organization can stitch together seamless coverage for the risks identified during the modeling and assessment phase.

Using Your Captive. Towers Watson helps organizations use their captive insurance company to write terrorism insurance to directly access the TRIPRA reinsurance program. You may still decide to obtain commercial reinsurance for terrorism losses not covered by TRIPRA (excluding NBCR). The captive risk financing approach can provide many benefits that purchasing commercial terrorism insurance cannot provide, including lower premiums, NBCR coverage, higher terrorism limits, reduced dependence on the commercial insurance market and stronger counterparty risk.

A Record of Success

Towers Watson is recognized as an industry leader in the area of enterprise risk management and risk financing. We work with hundreds of clients around the world to:

- Assess the extent of their exposure to terrorism risk
- Credibly model the economic impact of a terrorist event on their operations
- Assess their risk financing options
- Execute a cost-effective risk financing plan for their terrorism risk exposure that will provide significant financial risk coverage in the event of a terrorist attack that affects the organization

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

Towers Watson's Corporate Risk Advisory and Brokerage practice provides a sophisticated alternative to traditional insurance intermediaries that combines seasoned insurance brokerage expertise with the strong analytical resources of Towers Watson. We work closely with you to develop innovative risk management solutions so you are well prepared to handle risk financing challenges in today's environment.

For more information or to contact a Towers Watson consultant, please visit www.towerswatson.com/rab.