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**LOCATION:** 86/5  
**EXTENSION:** 5355  
**DATE:** 17 September 2003  
**REFERENCE:** Y3143  
**SUBJECT:** **TERRORISM RISK REALISTIC DISASTER  
SCENARIO 2003**  
**ATTACHMENTS:** Appendix I and II  
**ACTION POINTS:** **Managing Agents to complete and return RDS data**  
**DEADLINE:** **14 November 2003**

This bulletin details the 2003 Terrorism Risk Realistic Disaster Scenario ("RDS"), which is attached at Appendix I.

As part of the series of RDSs and following market consultation a new Specific Terrorism Risk Scenario has been developed, with the aim of obtaining a market-level loss figure from an extreme terrorist attack. The results from this scenario will not affect syndicates' Risk Based Capital requirements.

#### Completion of the Return

**Completion of the Specific Terrorism Scenario is mandatory for all syndicates. Syndicates with no exposure to the scenario should use the nil return function. Syndicates that are no longer active, but still have live exposures, are subject to the same requirements as an active syndicate.**

Capacity should be stated net of any Qualifying Quota Share ("QQS") facility, but aggregate data should include exposures written under a QQS agreement. Recoveries relating to a QQS agreement should be shown under a separate recovery class (business class 'RI: Whole Account QQS').

The business class, 'Outwards R/I: TRIA Recoveries' is included within the software to assist in the completion of the return.

Syndicates should continue to record stop loss recoveries on the RDS data screen and also use the general notes page of the return to explain the extent of any stop loss cover relied upon in the Terrorism Risk scenario, including details such as limits and excess points.

Syndicates must enter aggregate figures in full, selecting the appropriate 'aggregate type', before taking account of the probable maximum loss ("PML"). Please note that the software allows selection of a business class more than once, thus allowing entry of different aggregate types per class.

Syndicates should base the RDS submission on aggregates and unutilised reinsurance protections in place at **15 October 2003**, i.e. any live exposures and any relevant reinsurance remaining from prior years of account should also be included.

The software package will be distributed later this month via the Market Reporting web-site. Any queries on the content of this bulletin should be addressed to the Loss Modelling Department by contacting Boz Piniecka on extension 6823, or James Orr on extension 6402. Syndicates needing IT assistance should contact Ash Shah on extension 6858.

**The deadline for the submission of the completed RDS return is 12.00 noon on 14 November 2003.** The return should be made via the Market Reporting web-site.

This bulletin is being sent to all active underwriters and managing agents. A copy of this bulletin has also been sent to members' agents, Lloyd's advisers, corporate members, recognised accountants and market associations for information.

Stephen Manning  
Head of Risk Management

## REALISTIC DISASTER SCENARIO

### Specific Event Based Scenario – Terrorism Risk

Figures should be completed for both of the following alternative hypothetical terrorist attack scenarios:

#### Scenario A: TRIA

- The Midtown Manhattan area, New York, at 11:00am on 15 October 2003 suffers a bomb blast attack causing:

Description	Damage zones	Property damage
(a) Collapse and Fire Following*	Inner zone radius of 200m	100%
(b) Massive debris damage to surrounding properties	400m radius	25%
(c) Light debris damage to surrounding properties	500m radius	10%

\* Consideration should be given to the potential for loss incurred to fire damaged property located within zone (a) even where no original Terrorism *coverage* is granted. Any assumptions concerning Fire Following Terrorism to be documented in the ‘Comments’ section of the software.

- Radii measurements are taken from the Empire State Building as a reference point.
- The perpetrator is a foreign terrorist group and the terrorist attack falls within the definition of an “act of terrorism” as set out in TRIA.

#### Scenario B: Non-TRIA

- The same scenario as above, however, in this case the perpetrator is a domestic terrorist group and is not covered by TRIA.

#### Syndicates should assume the following:

- TRIA recoveries should be calculated and entered under the “Outwards R/I: TRIA Recoveries” business class in the RDS software. It is appreciated that, due to the wording of TRIA, some syndicates may have difficulty in calculating their group deductible where affiliates are involved. Syndicates are therefore requested to outline their assumptions in the ‘Comments’ section of the software.
- The attack is classed as one occurrence.
- 1,000 blue/white-collar worker deaths in total and 2,500 injuries in total; syndicates to determine a worst case split in terms across lines of business (WCA, PA, Group PA etc.) and document assumptions in the ‘Comments’ section.
- Overland/underground transport systems are partially damaged, leading to significant business interruption exposure for a period of 1 month.
- Amounts should be included for risks where US exposure is included to state or county level but without specific location or zip code information.
- There is no Nuclear, Biological or Chemical hazard exposure arising from this event.
- Consideration should be given to other possible business classes affected, such as Contingent Business Interruption, and Specie/Fine Art.

Please note: Mapping of the attack and zip codes affected are included in the software download.

**Guidance to completion of the Terrorism Risk RDS return**

- a) For the Terrorism Risk Scenario, it is expected that syndicates will utilise the specific event information (e.g. zip code damage ratios) when producing their estimates. The results should be on a 'best-estimate' basis to allow the meaningful aggregation of the results at market level. For some syndicates or types of business (e.g. direct and retrocessional) this may be difficult and broad assumptions may be necessary.

Syndicates should note the six aggregate types (numbered 7 to 12) which should be used for the specific event. These will enable the Loss Modelling Department to gain an understanding of whether the losses have been calculated using modelling techniques, or by using a market share approach. If a syndicate's approach does not fall into either of these categories, then one of the generic aggregate types (numbered 1 to 6) should be used.

- b) Syndicates are requested to use the notes feature to describe the methodology used to complete the RDS return.
- c) The cash flow screen should be completed for the scenario and syndicates should assume that year and quarter dates commence on the date of the loss. When completing the funding details, percentages should be based on the largest cash deficit in a particular quarter. Please contact Paul Coyle on extension 6882 regarding cash flow enquiries.
- d) Reinsurance recoveries should be broken down by reinsurer across each scenario submitted. To avoid reconciling recoveries to the last cent, syndicates are required to break down recoveries to at least 90% of the total reinsurance for each scenario.
- e) The latest set of LORS codes will be incorporated in the software prior to distribution. Should any security not appear on the listing, syndicates should first check the validity of their code with the LORS team or the broker, and then contact Boz Piniecka, Loss Modelling on extension 6823.
- f) Syndicates are requested to complete the 'Date of Board Approval' field on the main form. This should be the date on which either the Board, or a sub-committee with delegated authority, approves the RDS return.
- g) In order to facilitate monitoring of the Related Parties regime set out under Regulatory Bulletin 081/99 dated 20 September 1999, syndicates are required to detail the business assumed from and ceded to related companies (as defined by the Lloyd's Act 1982). In previous versions of the software, syndicates were required to show related company business assumed as additional entries to any non-related class of business entries. This secondary entry is no longer required, as a 'related party %' field has been included on the class of business line of data. A related company indicator is still included on the reinsurance outwards detail section.
- h) A number of validation procedures are included within the software and will automatically run when syndicates begin to extract the data. Details of these checks can be found in the RDS software manual, issued in April 2003, for the main RDS collection and should be referred to for guidance purposes.