Questions and Answers from the "Managing Terrorism Risk in Touchstone" Webinar

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On October 21, 2014, AIR presented a webinar entitled: "Managing Terrorism Risk in Touchstone." Peter Bingenheimer, AIR Vice President, and Alissa Legenza, Risk Consultant, described the evolving global terrorism threat landscape and discussed options for managing exposure to terrorism risks using Touchstone®. A recording of the presentation is available here: http://www.air-worldwide.com/Publications/Presentations/Managing-Terrorism-Risk-in-Touchstone/.

In response to the many inquiries following the webinar, we have created this document to address the most frequently asked questions.

Is the deterministic scenario analysis only available in the Geospatial Analytics module?

Deterministic loss analyses, sometimes referred to as "what-if" scenarios, can be conducted using Touchstone's Loss Analytics module. All companies that license the AIR Terrorism Model can build custom terror attack event scenarios to test the impact of different weapon types on buildings and workers. For example, companies interested in modeling a delivery truck bomb attack (6-ton TNT) scenario to help them respond to the Deterministic Loss Method questions in the Terrorism Section of the A.M. Best Supplemental Rating Questionnaire (SRQ) would be able to do so using the Loss Analytics module in Touchstone.

The Geospatial Analytics module in Touchstone—which is licensed separately for performing exposure accumulation analyses—can be leveraged for performing ring analyses to evaluate terrorism exposure around specific targets or at locations of maximum exposure, anywhere in the world. For example, companies interested in analyzing their largest concentrations of aggregate exposures within a 500-foot radius to help them respond to the Maximum Aggregate Accumulation questions in the Terrorism Section of the A.M. Best SRQ would be able to do so using the Geospatial Analytics module in Touchstone.

Can you tell me which countries are covered by your probabilistic model?

The probabilistic terrorism model in Touchstone covers the United States; however, AIR performs consulting studies to evaluate terrorism risk outside the United States.

Are terror target landmarks available for locations outside the United States?

Touchstone's Geospatial Analytics module provides the capability to perform accumulation analyses for exposures anywhere in the world. The AIR terror target database contains landmarks only within the United States. Companies interested in performing ring analyses in Touchstone to view accumulations of terrorism exposure around specific terror landmarks outside the United States can do so by importing user-specified or third-party target data. For example, companies that license IHS's comprehensive global terror target database can import this data directly into Touchstone for geospatial analysis.

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Can we license your pure industry terrorism losses outside Touchstone?

Yes. Industry terror attack loss estimates are available within CATRADER®, AIR's standard platform for estimating industry losses.

What data is required to support workers' compensation terror-attack analyses?

Some exposure data inputs are necessary to support workers' compensation terrorism loss modeling in Touchstone. Building location detail, or COPE data elements, should include location address, construction type and number of stories, as well as the number of employees insured at each location. (Alternatively, the model can estimate the number of employees based on payroll and average wage information.) Workplace occupancy rates, or the distribution of employees by shift, is also important to workers' compensation analysis and can be specified by the Touchstone user or based on model defaults. Finally, the cost of worker injuries, which is dependent on severity levels and the state where the workplace is located, is necessary to generate the total loss distribution. Average claims costs can be specified by the Touchstone user or, when such data is unavailable, users can leverage the model defaults, which are derived from actual claims data and state-specific average costs as reported by the National Council on Compensation Insurance.

How does the AIR terrorism model handle swarm events?

When the stochastic catalog is created, we consider the likelihood of "swarm attacks." A swarm attack can consist of any number of coordinated "events," conceived in the same plot, by the same terrorist group, and using a single weapon type. Each unique event coordinated within a swarm attack becomes a separate event in the stochastic catalog. These events can be at different locations (typically in different cities) and can occur on different days, but must occur within the same simulated year so they contribute to the aggregate loss of the same year.

Will the platform extend to reinsurance treaties—that is, can multiple cedants be modeled?

Yes. AIR's Touchstone and CATRADER platforms support the terrorism model and the ability to overlay reinsurance treaties, including CAT XOL treaties. CATRADER supports the modeling of one cedant, multiple cedants, or a full reinsurance portfolio.

How often does AIR update the probabilities for different types of events in the terrorism model?

The model was last updated in 2011. We recently convened the team of counterterrorism experts, known as the "Red Team," to reassess the level of risk, and the team's findings largely supported the existing stochastic catalog. We will continue to monitor the level of risk and will update the model when warranted.