



THE PRICE OF SUCCESS

Housing top employees in a prestigious location raises a company's profile, but also presents serious questions as to the adequacy of its group life insurance.

As London reinforces its pre-eminence as a financial centre, Docklands has finally come into its own and the city's skyline is rapidly being transformed with new and projected skyscraper projects. This Manhattan-isation effect, which is not only limited to the capital, brings with it some impressive sleek new skyscrapers plus a raft of ambitious new projects both in the City and beyond that will become reality in the next few years.

But this success story also exposes the capital to potentially catastrophic loss. Indeed, one of the new landmarks, the iconic 'Gherkin' owes its location to the IRA bombing campaign of the Nineties, which wrecked the Baltic Exchange. Fortunately, the aim of that campaign was to wreak devastation on property rather than lives. But in the wake of the September 11 terrorist attacks, we are keenly aware that companies with a large concentration of senior and highly paid employees located in one building can suffer mass fatalities.

The Tube bombings of July 2005 and the failed attacks on London's West End in late June have emphasised that the threat is ever-present and is forcing companies to have contingency plans ready should the worst happens. A disquieting report issued late last year by MI5 suggested that the UK housed

as many as 200 terrorist networks, with some 1,600 individuals active within them.

One of the uncomfortable questions that has to be asked is whether the company is able to fulfil its obligations to employees and their dependants should a catastrophic event occur. A stark legacy of 9/11 was that it underlined to group life insurers the potential for multiple person deaths from a single, shocking event. Concerned by the resulting exposures, most introduced event limits on group life policies to restrict the maximum amount recoverable from one event. Although the limit for multiple person deaths from one event is typically £100m, in some cases it can be as low as £50m or even £35m.

Insurers may also be reluctant to provide cover for too many companies situated in a location deemed most at risk of attack. Canary Wharf is regarded as the most obvious target due to its success and the presence of so many major financial institutions housed in prestigious buildings. However, other major UK cities such as Leeds are also important financial centres and companies with premises close to our main airports are others potentially at risk, as was shown last August by the foiled plot to bomb flights operating out of Heathrow and the bungled attack on Glasgow Airport. The potential for multiple person deaths from one event is not restricted only to terrorism; for example, the Buncefield oil depot explosion in December 2005 could have proved far more devastating had it not occurred at the weekend when adjacent business premises were vacant.





A BENEFIT SHORTFALL

These event limits now imposed on group life policies mean that, for companies with 250 or more staff at one location, the maximum amount recoverable from one event will probably be quite inadequate when measured against the total sum of all the employees' death-in-service benefits. UK employment contracts typically provide a payout of two to four times salary in addition to a spouse's/dependant's pension, which can work out at anything up to sixteen times salary when calculating the dependant's liability.

So it is quite realistic to speak of a combined overall exposure in the region of £300m to £400m for a sizeable workforce located at a single location, when taking into account wage-roll, the immediate death-in-service exposure and dependents' liability combined. This creates the possibility of the company pension fund being reverted to for covering a substantial uninsured amount in the event of a catastrophic loss.

This summer's terrorism alerts will probably have reinforced insurers' attitudes in maintaining policy limits that could prove totally inadequate in the event of a catastrophic loss. Pension trustees have fairly limited options when seeking to bridge the shortfall. The obvious means of circumventing the restrictions, by purchasing excess

layers of group life cover from other insurers, is hampered by the fact that the majority of UK insurers are reliant on either Swiss Re or Munich Re to provide their reinsurance.

Not only are pension trustees waking up to this serious situation. The more savvy of those in the company workforce are becoming aware that the benefit payout to dependents set out in their contract of employment could be seriously impaired if a low event limit has to be distributed amongst a large number of claimants.

At JLT, we have been working on making available an excess group life catastrophe cover that can address the deficiency. Fortunately, our thinking has been matched by one of the best-known names in the insurance sector and together we have jointly developed a facility that provides up to £150m in excess insurance. For major companies with substantial exposures, we are also able to place additional layers of insurance.

The cover is broad, protecting against a wide range of perils including terrorist acts and extending to nuclear, chemical and biological terrorism. The latter is a significant benefit if, as appears very possible, the relative crudity of the terrorist attacks to date in the UK is succeeded by something more sophisticated and deadly. The only exclusion is war.



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It also offers flexibility and can be bought specifically for a named premises or extended to apply anywhere on a 24-hour basis. Pricing is competitive, although premiums will naturally reflect the location(s) to be covered and be commensurately higher for those in areas deemed to be high risk.

At present JLT is offering this group life catastrophe insurance facility for UK risks as the event limit applied by insurers is less of an issue elsewhere; for example, German companies do not provide the same automatic multiple-of-salary benefit should an employee die in service.

If there is a need in other European countries, we could certainly look to cover those exposures. It is in the random nature of catastrophe that one can never tell where and when it may strike.

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