Terrorism: a global approach to a global threat

A global approach to insuring terrorism risk should consider the various national schemes available and the cover they provide, as well as the issues that they do not address – and the potential gaps in coverage they may create. By Lee Coppack

Terrorists can attack anywhere and at any time, so international companies need to know that their insurance protection throughout the world is comprehensive and consistent with their risk appetite. This, says Kelly Crouch, Jardine Lloyd Thompson's Head of Terrorism and Political Violence, is a good reason to purchase terrorism cover as a global insurance programme rather than addressing the peril on a country-by-country basis.

In order to address the threat of terrorism a number of national insurance pools or reinsurance schemes have been established. All cover damage to property, but here the similarities end. National schemes vary in structure and coverage often as a result of the reasons why they were created and the specific threats faced within the territory. For instance Spain's Consorcio de Compensacion de Seguros was established in 1941 in response to losses arising from the civil war. Participation is compulsory for all insurers and purchase is compulsory for all policyholders.

The UK has had a state-backed scheme (Pool Reinsurance Company Limited) since 1993 as a result of its experience with the Irish republican movement and due to restrictions of cover available from commercial property insurers. Pool Re is voluntary and as such the standalone market provides important capacity and an alternative to the scheme coverage.

Following the events of 9/11 the US Congress created a federal government back stop for the commercial market in case of an extreme event. The scheme has gone through three iterations, and the current version, the 2007 Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), will be in effect until 2014. However, there are a number of restrictions in coverage and requirements that must be met before the government will respond, for instance the aggregate loss to insurers must exceed US$100 million and be deemed 'certified' by the administration.

Among other countries, Israel and South Africa also have established schemes, while at least a further 11, including France, Germany and Australia, created public-private programmes following 9/11 as capacity for terrorism risks contracted abruptly in the immediate aftermath and what remained available became very expensive.

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Understanding differences

Across the schemes a variety of definitions of terrorism, exclusions and limits apply which determine their ability to fully respond to a company's needs. Often these variations (and gaps) are not clear to buyers and due to this lack of clarity many companies may have exposure to risks that they believe to be covered.

Therefore creating a truly global programme requires an understanding of the national schemes in place and how to work with, or around, them. Crouch says it is important to understand where the schemes exist, the differences between them and to keep up to date with changes to maintain consistency of cover. Difference in conditions (DIC) and difference in limits (DIL) cover from the standalone terrorism market can help create a consistent »»

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programme and avoid any scheme changes having a detrimental effect on coverage.

According to Crouch, the cover offered through national schemes can be comprehensive and good value. However many of the schemes do not address the full spectrum of terrorism and political violence risks faced by companies.

David Guest, War, Terrorism and Political Violence Underwriter for Hiscox, says that starting with national schemes can be limiting. What the business really needs is over-arching cover that takes into account the potential financial impact of a terrorist attack on the business. "National pools will work for some clients. For others, they are not the most effective solution," he comments.

Global programmes

An insurance manager of a global business responsible for 53 operations in 28 countries explains that his company buys cover from local pools where available, even if it is not compulsory, then purchases a global programme to cover all other territories and 'wrap around' the pool coverage. "The global policy is DIC/DIL to the local pools to ensure we have the same standard of cover everywhere," he says. "The global policy is also arranged to extend to address broader political violence perils, including war, which the schemes cannot cover."

Stand-alone cover can also effectively address those risks beyond damage to property. As the global group insurance manager explains, his company's principal exposure is business interruption. "Even one event which caused a small amount of damage to our assets could result in a significant interruption." Only the stand-alone market is likely to cover liability and contingent business interruption risks such as failure by suppliers or customers following an event at their premises, denial of access and availability of public utilities.

As Guest says, "It's not just about the building but also about the people who work for you and the people who use the building." Some pool schemes, such as the Australian Reinsurance Pool Corporation, do offer an element of liability cover, and UK employers' liability insurance does not exclude terrorism, but wordings and limits will vary.

Untested schemes

Another outstanding concern to buyers is that few of these national schemes have been tested. The response of a scheme to an event may depend upon a decision, often by politicians, whether or not the particular act fell within the parameters or definitions of terrorism for the pool. It is not difficult to imagine that cost to the government and other political factors could influence their thinking.

How long a response from the relevant government, where required, would take remains undisclosed (the Belgian pool allows up to six months for a decision to be reached) therefore a key question arises; could your business survive such a delay in payment of a claim? Crouch notes that the benefit of standalone cover is that is has been tested, also DIC and DIL coverage is designed to respond where the scheme may not.

Today there is an extensive commercial insurance market for terrorism risks. Guest says, "There is an enormous amount of capacity available. It can be a job to pick your way through the market to make sure you are getting good value for the capacity."

It would appear that the key to insuring terrorism risks is to understand what is covered and what is not covered by each national scheme and to use the stand-alone market in a sophisticated way to create global protection. RS

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