



# No Stone UNTURNED

*by Chuck Eckert*



It permanently changed our world in ways we never could have possibly imagined. Innocent lives were lost, families were broken, and confusion engulfed our nation when the Pentagon was attacked and the Twin Towers collapsed before our eyes. On September 11, 2001, we experienced fear and destruction on an unparalleled level. Virtually every area in the U.S. has been impacted in one way or another since the attacks over a decade ago. Not only has the personal suffering been immeasurable, but the business world has been forever altered by the monumental aftershocks that followed this unprecedented event.

## Terrorism Insurance

The insurance industry's view on terrorism risk was considerably altered following 9/11. The damage resulted in significant costs – property losses totaled \$7.5 billion, while \$13.1 billion was lost in business interruption. Total insured losses added up to an overwhelming \$39.5 billion, a number so high and unanticipated that approximately two-thirds of it had to be paid by reinsurers (insurers for insurers).<sup>1</sup> The stock markets were closed for six days (something that was previously unheard of), which caused a complete standstill for economic growth. It was evident that the impact a terrorist attack could have on the financial stability of the U.S. was overlooked and underappreciated. In November

of 2002, President Bush signed the Terrorism Risk Insurance Act, requiring *all* insurance carriers to provide property and casualty insurance at affordable rates to businesses and individuals.

### In the Past

Prior to 9/11, terrorism coverage was nearly nonexistent and rarely purchased. It was typically included in commercial policies as “hazard insurance” and was relatively inexpensive or simply included without an increase in premium. Few people viewed terrorist attacks as likely events; however, the cost of terrorism coverage skyrocketed after 9/11 when insurers experienced overwhelming losses triggered by immense destruction. To add to that, carriers realized they had minimal data and lacked prior trends for reference; consequently, underwriters were not able to calculate risk and settle on reasonable premiums.

The government recognized the insurance industry's unprepared response to 9/11 and made the choice to get involved. The Terrorism Risk Insurance Act (the “Act”) was established to help struggling businesses acquire terrorism and casualty insurance at affordable prices following 9/11. The government believed the Act would create a transitional period that would facilitate the insurance industry's recovery and enable them to absorb future

losses. Since 2002, the Act has been extended twice and is presently set to expire on December 31, 2014. Events covered under the Act must be certified by the Secretary of Treasury and meet the following criteria:

- The act must be violent, or one that is dangerous to human life, property or infrastructure.
- The act must have resulted in damage within the U.S. (or outside of the U.S. in the case of some air carriers, U.S. flag vessels, or vessels based principally in the U.S., on which U.S. income taxes are paid and whose insurance coverage is subject to regulation in the U.S.), and at the premises of any U.S. mission.
- The act must have been committed by an individual or individuals acting on behalf of any foreign person or foreign interest, as part of an effort to coerce the civilian population of the U.S. or to influence the policy or affect the conduct of the U.S. Government by coercion.
- The act results in property and casualty insurance losses that exceed \$5 million in the aggregate.<sup>2</sup>

Also included, with exceptions and limitations, are home/condominium damages, automobile coverage, property damage and workers' compensation.

### Today

With the Act extending until 2014, terrorism insurance will continue to be offered in conjunction with government support. Under the terms of the Act, the government serves as a reinsurer to the carrier in the event of a significant terror-related loss. According to legislation, expenses resulting from a covered loss must exceed \$5 million. Once that dollar amount is reached, the government is required to pay a portion of the expenses. The government-funded assistance secures the affordability of terrorism insurance by reinsuring carriers that they will not crumble under the financial impact of a terrorist attack. However, federal payments will not be made until the following criteria have been met:

- The insured files a claim with the insurer.
- The insured provides the policyholder full disclosure of the premium charged for insured losses covered by the program and the federal share of compensation for insured losses.
- The insurer processes the claim and submits it to the Secretary of State, who then produces a claim for payment, written documentation and certification of compliance.<sup>3</sup>

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Presently, terrorism insurance is mostly purchased by large businesses as opposed to individuals and small companies. Corporations located in target locations (i.e., near airports or federal buildings) are typically more vulnerable to terrorist attacks and, therefore, are encouraged to consider obtaining this coverage. Homeowners who reside near target locations may also want to consider purchasing terrorism coverage to protect against potential damage caused by nearby explosions, fire and smoke.

### In the Future

No one can be certain when, or if, another terrorist attack will occur, and that is precisely why insurance exists – to protect against the unforeseen. While the likelihood of a terrorist attack impacting any business is low, the loss resulting from such an event can be detrimental. Some speculate that the government may scale back funding for terror-related losses following the Act's expiration date on December 31, 2014. However, the unpredictability of claims and their payouts may force the government to uphold the current provisions of the Act for a number of years. Regardless of what the future holds, it is important for businesses and individuals to assess their risks now to protect themselves from financial disaster.

<sup>1</sup> Kunreuther, Howard and Erwann Michel-Kerjan. “Looking Beyond TRIA: A Clinical Examination of Potential Terrorism Loss Sharing.” TRIA and Beyond: Terrorism Risk Financing in the US. February 2006. Accessed on December 6, 2011 at <http://www.epsusa.org/events/eea/kunreuther.pdf>

<sup>2</sup> “Terrorism Risk Insurance Act.” USLegalinc.com. 2010. Accessed on December 8, 2011 at <http://terrorism.uslegal.com/terrorism-risk-insurance-act/>

<sup>3</sup> H.R. 3210. One Hundred Seventh Congress of the United States – Second Session. January 23, 2002. Washington, D.C. Accessed on December 8, 2011 at <http://www.treasury.gov/resource-center/fin-mkts/Documents/hr3210.pdf>

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