

Terrorism Exposure and Coverage Solutions

A recent article that came out from NPR radio station in Boston, WBUR, had as its headline: Boston Businesses Worry About Lack of Terrorism Insurance. While that is an extremely appropriate headline, let me write another: Boston Insurance Agents Worry About Lack of Terrorism Insurance Offers to their Insureds.

For that past 11 years, we have been offering “TRIA” when required to do so and receiving either acceptance or rejection of that extension from the insured. Our work is done, right?

Not so fast. “TRIA”, or more correctly, TRIPRA, is NOT Terrorism insurance, per se. It is a reinsurance scheme backstopped by our tax dollars and is designed to comply with a federal statute. The Act contains compliance with certain conditions to trigger coverage for the policyholder. These conditions are more fully outlined below. Stand-alone Terrorism Insurance is available in the marketplace and needs to be offered to your client.

On the heels of the Boston Marathon bombing, President Obama stated that this horrible event was an act of terrorism. This pronouncement is important and will be part of the decision-making process that insurance adjusters will use to accept or deny coverage requests by the injured parties under various parties’ liability insurance as well as the physical damage and business interruption claims filed by the businesses affected by the bombing. A complete accounting of the physical loss and resultant business interruption losses has not been determined as yet.

The questions relating to the bombing:

- Will “normal” insurance cover this loss?
 - Was this an act of terrorism? This will be established by the criminal investigation that is ongoing.
- Was this a “Certified Act of Terrorism”? The criterion for this is:

- Property and casualty losses must exceed \$5,000,000 to qualify as a “Certified Act of Terrorism” as required by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA)
- The Secretary of the Treasury in conjunction with the Secretary of State and the US Attorney General must all agree that the act is a Certified Act
- Was this an explosion and/or vandalism and not an act of terrorism?

Insurance coverage facts:

- If the insured purchased Commercial Property Coverage on a Special Form basis and Commercial General Liability Coverage and the act is deemed a terrorist act then:
 - If the loss is NOT “Certified” there will be no coverage response even if the insured accepted the “TRIA” offer
 - If the loss IS “Certified” there will be no coverage response if the insured did NOT accept the “TRIA” offer
 - If the loss is “Certified” and the insured accepted and paid for the “TRIA” offer, coverage should respond (see more details below)
- If the loss is NOT deemed to be a terrorist act then:
 - Coverage should apply under the Property Coverage form
 - Coverage should apply under the Business Income and Extra Expense Coverage form for those that experience a direct physical loss
 - Coverage should apply under the Business Income and Extra Expense Coverage form under Civil Authority for the period of time that the City of Boston shut down access to the immediately surrounding area
 - Coverage will not apply to the general economic downturn experienced by the City and businesses during the aftermath of this event
 - Coverage should apply under the General Liability policies for those entities that are sued as a result of the wrongful deaths and injuries that were sustained

So, where does this leave the agent and broker trying to take care of their client? As is human nature, all of us in the US have become rather complacent about the fears of acts of terrorism

and many clients may discount their risk exposure to this type of event. Well, we have had yet another wake up call. As a producer, your job is to identify risk and offer solutions. Offering “TRIA” coverage on a ‘sign here’ basis is just not good enough. Stand-alone terrorism coverage is one of those solutions. There are a number of markets that offer this coverage for both US based insureds as well as those clients that are more global in nature. You need to offer both types of risk transfer IN WRITING – get a quotation for the stand alone coverage for property and/or casualty losses. The marketplace provides more options for property risk than the casualty risk in stand-alone terrorism coverage but it is still available for both areas.

Quite recently, several respected organizations and publishers within the insurance industry have put out very well-written articles provided information regarding TRIPRA and the terrorism marketplace in general.

The first is the Insurance Journal article which outlines the issues and concerns surrounding the Congressional debate that will need to take place within the next year as the current TRIPRA legislation expires at the end of 2014.

<http://www.insurancejournal.com/news/national/2013/04/30/290271.htm>

Next is an article written by the Insurance Information Institute that provides an overview of terrorism issues and concerns and also speaks to the current legislation and reauthorization efforts. http://www.iii.org/issues_updates/terrorism-risk-and-insurance.html

Last, is the 2013 Terrorism Risk Insurance Report researched and written by Marsh USA

<http://usa.marsh.com/NewsInsights/MarshRiskManagementResearch/ID/30732/2013-Terrorism-Risk-Insurance-Report.aspx>