

Abel Insurance Agency

Risk Management & Consulting Services

TERRORISM INSURANCE

Understanding Terrorism Insurance

Terrorism insurance provides coverage to individuals and businesses for potential losses due to acts of terrorism.

Individuals

Standard homeowners insurance policies include coverage for damage to property and personal possessions resulting from acts of terrorism. Terrorism is not specifically referenced in homeowners policies. However, the policy does cover the homeowner for damage due to explosion, fire and smoke—the likely causes of damage in a terrorist attack.

Condominium or co-op owner policies also provide coverage for damage to personal possessions resulting from acts of terrorism. However, damage to the common areas of a building like the roof, basement, elevator, boiler and walkways would only be covered if the condo/co-op board has purchased terrorism coverage.

Standard renters policies include coverage for damage to personal possessions due to a terrorist attack. Again, coverage for the apartment complex itself must be purchased by the property owner or landlord.

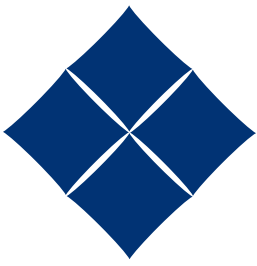
Auto insurance policies will cover a car that is damaged or destroyed in a terrorist attack only if the policyholder has purchased “comprehensive” coverage. Most people who have loans on their cars or lease are required by lenders and leasing companies to carry this optional form of coverage. People who buy only liability coverage are not covered in the event their vehicle is damaged or destroyed as the result of a terrorist attack.

Life insurance policies do not contain terrorism exclusions; proceeds will be paid to the beneficiary as designated on the policy. Health and disability insurance policies may provide coverage for loss of life, injury or sickness to individuals in the event of a terrorist attack.

Businesses

Prior to 9/11, standard commercial insurance policies included terrorism coverage as part of the package, effectively free of charge. Today, terrorism coverage is generally offered separately at a price that more adequately reflects the current risk.

Insurance losses attributable to terrorist acts under these commercial policies are insured by private insurers and reinsured or “backstopped” by the federal government pursuant to the Terrorism Risk and Insurance Act of 2002 (TRIA). Under TRIA, owners of commercial property, such as office buildings, factories, shopping malls and apartment buildings, must be offered the opportunity to purchase terrorism coverage. TRIA was renewed for a further two years in 2005 and is set to expire at the end of 2007. For the terrorism coverage to be triggered under TRIA for commercial policies, a terrorist attack has to be declared a “certified act” by the Secretary of the Treasury.



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No such declaration is needed to trigger coverage under home and auto policies because there are no exclusions for terrorism.

What is not covered?

There are long-standing restrictions regarding war coverage and nuclear, biological, chemical and radiological (NBCR) events in both personal and commercial insurance policies.

War-risk exclusions reflect the realization that damage from acts of war is fundamentally uninsurable. No formal declaration of war by Congress is required for the war risk exclusion to apply. Nuclear, biological, chemical and radiological (NBCR) attacks are another example of catastrophic events that are fundamentally uninsurable due to the nature of the risk. Under the Terrorism Risk Insurance Act, if some NBCR exclusions are permitted by a state, an insurer does not have to make available the excluded coverage.

Business Interruption Insurance

Property damage to commercial buildings from a terrorist attack also may include claims for business interruption. Business interruption insurance (sometimes referred to as business income coverage) covers financial losses that occur when a firm is forced to suspend business operations either due to direct damage to its premises or because civil authorities limit access to an area after the attack and those actions prevent entry to the business premises. Coverage depends on the individual policy, but typically begins after a waiting period or “time deductible” of two to three days and lasts for a period of two weeks to several months.

Business interruption losses associated with acts of civil authority (e.g., closure of certain area around the disaster) can only be triggered when there is physical loss or damage arising from a covered peril (e.g., explosion, fire, smoke, etc.) within the area affected by the declaration. The loss/damage need not occur to the insured premises specifically. Reductions in business income associated with fear of traveling to a location, in addition to closure to areas by authorities because of a heightened state of alert, would not be covered by business interruption policies.

Workers compensation

Workers compensation—a compulsory line of insurance for all businesses—covers employees injured or killed on the job and therefore automatically includes coverage for acts of terrorism. Workers compensation is also the only line of insurance that does not exclude coverage for acts of war. Coverage for terrorist acts cannot be excluded from workers compensation policies in any state.

Life/health and disability insurance policies may provide coverage for loss of life, injury or sickness to individuals in the event of a terrorist attack.