

Insurance Times: Opinion Exchange: Risk Averse

June 25, 2002, Vol. XXI No. 13

The belief that so-called 'intentional' risks — including the threats posed by terrorism — are uninsurable is a recipe for paralysis and is creating a dangerous risk-averse culture, according to a new research project.

The research, carried out by the think-tank Global Futures and sponsored by Lloyd's of London, and the Association of Insurance and Risk Managers (AIRMIC), looks at how the world has reacted to the events of September 11, and suggests that nations have developed a risk-averse culture that is stifling the aspirations of business and diminishing society's capacity to respond to adversity.

In a preliminary report, entitled "Refusing to be terrorized: managing risk after September 11," Professor Frank Furedi, of the University of Kent, argues that the risk-averse culture is dangerous, and that it is better for the insurance industry to treat some aspects of September 11 as a normal, insurable event and discourage society's preoccupation with the idea that it is exceptionally vulnerable.

He says that risks have traditionally been understood as the unintended product of human interaction with the world. But the attacks on the World Trade Center have heightened the spectre of "intentional risk," leading societies to adopt a vulnerability-led response.

"There seems to be a tendency to embrace the idea of society under threat," says the report. "The traditional response that terror will not succeed in preventing us from going about our daily business is less in evidence.

"The spectre of intentional risks has led to ambivalence about ambition and fear of sophistication. Aspects of society that have previously been seen as positive — such as prestigious buildings, feats of civil engineering, vibrant business centers, advanced computer networks and modern transport — are now regarded as potential targets for terrorists."

Furedi claims that risk aversion creates opportunities for terrorism and hoaxes that cause panic and disruption. Threats from terrorism or other acts of disruption or sabotage generate extreme and one-sided responses that create more problems for the future.

"Over-reaction and speculation about threats are disabling to a reasoned risk management response and inhibit good planning," says the report. "The risk management sector needs to find ways to discourage speculation. If the ability to cope with and learn from intentional risks is not accepted, there is likely to be a deterioration in the relationships between insurers and risk managers.

"The one-sided tendency to emphasize vulnerability rather than resilience is itself likely to encourage attacks and hoaxes. Our risk-averse culture is dangerous, because it ensures that large-scale disruption, reorganization of resources and fear and confusion are the reward for terrorists."

The report suggests that since last September an ever-growing part of social and business life has been reorganized around a heightened sense of security consciousness, including: travel security measures; increased building security; mail delivery and security; protection of records and data and activity dispersal by companies.

The problem with these developments is that they are a reaction that may be unjustified, claims Furedi. Security management services exaggerate risks that accord with their specialties. Political lobbyists inevitably put forward one-sided cases. All kinds of agendas are being pursued under the guise of a response to September 11.

"The resulting impression, in politics and industry but also across society, is that September 11 represents the emergence of threats beyond the capabilities of traditional risk management, beyond existing systems of insurance and beyond our social resilience," says the report.

"The danger is that, in addition to often being untrue, this outlook will limit society's capacity to respond to such risks and will supplant balanced risk management with acting on fears and insecurities. We face a major challenge in learning how communities should now share the risks they face."

The report is being widely circulated among risk managers, insurers and policyholders, who will have several months to respond. Their comments will be included in the final report, due to be published in 2003.

....

Before creating joint underwriting associations to provide difficult-to-obtain insurance, such as for medical malpractice or nursing homes, state regulators should encourage coverage by surplus lines insurers.

The Surplus Lines Committee of the National Association of Independent Insurers (NAII) reiterated that position at a recent meeting.

And it bears repeating here:

"As they have so often in the past, surplus lines insurers can provide a safety valve for businesses and consumers that are encountering difficulties in obtaining insurance," said Michael Koziol, senior director and counsel at NAII.

"But state regulators should not impede this natural competitive process by creating JUAs before it's clear that the surplus lines market isn't working in these troubled areas.

"Because rate and form restrictions affecting the standard market do not apply to surplus lines insurers, they can provide customers with tailored policies to meet their specific needs when they have difficulty obtaining coverage elsewhere."

Generally, customers who have tried unsuccessfully to obtain insurance from at least three licensed companies in their state (referred to as "due diligence") can then seek coverage from an out-of-state surplus lines insurer who is not subject to that state's rate and form restrictions.

"This system has worked well over the years, providing more than \$9 billion a year in needed coverage since 1994," Koziol said. "To meet that need, surplus lines insurers must be free to write a variety of coverages without being tied to specific mandates or restrictions.

"The result is far better for everyone than the artificial mechanism of forming a JUA that forces licensed insurers to bear the risks involved, ultimately at a higher cost for all consumers. In addition, under no circumstances should a JUA be ahead of surplus lines in the hierarchy of markets."