

Insurance Times: Better hi-tech terrorism cat models could ease markets

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NEW YORK (AP) — A year after the Sept. 11 terrorist attacks, insurers are still struggling with how to cover commercial property against terrorism.

Most have dropped terrorism coverage where possible, leaving building owners scrambling to protect their assets.

The coverage that is available is limited — no nuclear, biological or chemical events are included — and policies pay for less than \$500 million in damage. The value of the twin towers of the World Trade Center was more than \$7 billion.

It's also very expensive — in some cases more expensive than insuring the entire property value in the event of a fire.

Insurers are worried about taking on too much risk without having a definite idea how frequently acts of terrorism could occur in the United States.

However, a new kind of catastrophe modeling — developed by the same companies that pioneered hurricane and earthquake models — may help ease some of the industry's fears and make more coverage available.

Hemant Shah, president of Risk Management Solutions, a San Francisco catastrophe modeler, says that if insurers can understand the range of outcomes and guess their likelihood, they are more willing to offer coverage.

That's been the case as better models have been developed for earthquakes, hurricanes and floods around the world, Shah said.

Several terrorism catastrophe models have been introduced into the market in recent weeks. RMS introduced a model based on game theory, the mathematical discipline featured in the movie "A Beautiful Mind."

AIR Worldwide unveiled its own model that uses the "Delphi method" to assess frequencies and locations of future attacks. The Delphi method develops a statistical model based in part on interviews with terrorism and military experts about where and how future terrorist attacks may develop.

Despite the new models, acceptance and implementation of those models remains a longer process for the industry, observers say.

A few insurers began offering stand-alone terrorism insurance earlier this year on a limited basis or with small coverage amounts. However, it still remains difficult for many commercial property owners to find coverage, the Insurance Information Institute's chief economist, Robert P. Hartwig, said in a recent report.

"Many businesses are unable to obtain terrorism coverage at any price, especially higher-profile structures with potential for catastrophic property and third-party losses," Hartwig said.

"Other businesses, when offered coverage, have frequently declined, citing cost, the belief that they are unlikely to sustain damage from a terrorist attack or their expectation that government aid will be available in the event that such an attack does occur."

A July 2002 survey by Prudential Securities, a unit of Prudential Financial, found less than half of its commercial customers had any terrorism coverage.

A majority of those who obtained coverage faced higher premiums, coverage limits, higher deductibles, cancellation clauses of 60 days or less and exclusions for nuclear, biological or chemical attacks. Rate hikes ranged from a low of 20 percent to a high of 200 percent, the survey found.