

Survey confirms that many businesses reject terror coverage as too costly

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A new survey of commercial lines insurance brokers confirms earlier reports that while insurers are making terrorism insurance coverage available, not many businesses are buying it.

Many buildings, businesses and other commercial parties are not buying the insurance because they do not consider themselves targets of terrorism, the cost is too high or both, according to a survey conducted by The Council of Insurance Agents and Brokers (CIAB).

The survey also suggests that some businesses see the coverage as inadequate protection.

War in Iraq Effect

Brokers noted, however, that in the days leading up to the war in Iraq, more businesses were buying coverage out of fear that terrorists may retaliate for U.S. actions in that region.

Nearly 60 percent of brokers responding to the survey said fewer than 10 percent of their small commercial property/casualty accounts and fewer than 20 percent of medium-sized accounts have purchased terrorism coverage offered to them by insurance carriers. Of the brokers handling large accounts, 48 percent said fewer than one in five of the biggest customers have bought terrorism coverage.

Premium Assessments

According to the CIAB survey, most of the small and medium accounts are being assessed 10 percent of premium, while large accounts typically are paying 20 percent of premium or less.

The Council represents insurance brokers who collectively write 80 percent of the country's commercial property and casualty premiums annually.

Council President Ken A. Crerar said responses of brokers to a number of open-ended questions indicate that despite the passage of the federal terrorism insurance backstop at the end of last year, there are some significant gaps in terrorism coverage around the country.

"On balance, the market is significantly more stable with the Terrorism Risk Insurance Act (TRIA) than without it. However, cost and availability of coverage remain key issues," Crerar said. "Small, relatively low-profile accounts seem to be able to find terrorism coverage at a reasonable cost, but many are opting not to buy it because they don't think they are at risk. On the other hand, some of the riskier operations, with real exposures, choose to do without coverage because of the cost."

Insurers' Concerns

The survey also suggests that while insurers want to take advantage of the higher rates now being charged for commercial property/casualty insurance, they don't particularly want the added exposure to perceived terrorist targets.

"They have shown concern for offering the coverage because they are not being reinsured [in the existing marketplace]," said a broker from the Southwest. "However, they still want to write business and take advantage of the higher rates, so they are taking the risk net."

"When a carrier does not want the exposure, they are pricing coverage at 100 percent of the property rate so that no clients elect the coverage," said a broker from the Southeast who handles large accounts.

A broker from the Northeast said location of risk is key to the terror quotes. "Risks in Manhattan can run as high as 100 percent in the outer boroughs, or out of the city, 5-10 percent of the property premium," he said.

But in other areas, the market is not that clear.

"There is great variance with no apparent logic," said a broker from the Midwest. "In some cases (for small and medium accounts), there is virtually no charge, and in others, over 100 percent. One insurer offered a local city coverage at about 105 percent, and the county in which the city is located at 2 percent."

Coverage Not Broad Enough

Another reason some commercial interests are giving for not buying terrorism insurance is that the coverage is not broad enough to do any good, the survey showed.

"Many larger insureds don't feel that TRIA coverage is adequate [for covering their exposures]," said a broker from the Northeast.

"Nuclear, biological agents exclusions negate coverage," said a broker from the Pacific Northwest.

The TRIA covers terrorist acts sponsored only by foreign interests, a fact that many clients do not understand. Surveyed agents said the market for domestic terrorism is mixed. Some carriers are offering coverage -- and in some cases, coverage for no cost if the risk is not perceived to be high. But other carriers are excluding coverage if they can for the riskier situations.

"Companies ... are not offering coverage for domestic terrorism freely," said one broker in the Northeast, "and you have to be very proactive to obtain it if the client asks for it. Availability is limited. Pricing is expensive. Limits are on the low side."

"We are finding that many insurers are not expressing concern about domestic terrorism. Foreign terrorism is the key issue for them, and they are not charging additional premium for the domestic terrorism risk. Other insurers are attempting to exclude it," reported another broker from the same region.