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# Client Briefing (12)

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## TERRORISM INSURANCE UPDATE

Terrorism first became an insurance issue in 1993, when the UK insurance industry's exposure to IRA bombings in the City of London and elsewhere became potentially too large for the UK insurance industry to bear alone.

The outcome was the formation of "Pool Re" a specialist terrorism re-insurer for commercial insurers ultimately guaranteed by the Government. Commercial insurers continued to carry the first £100,000 of terrorism risks and for an additional premium "Pool Re" cover is available above this £100,000 level. Terrorism was defined as "activities directed towards the overthrowing or influencing by force of any government" and that definition still holds good to-day for Pool Re insurance purposes.

The attack on the New York World Trade Centre last year, has shown the scale of terrorism losses that are possible (probably over \$60 billion in the case of the WTC ) and re-defined and extended terrorism into new dimensions. These exposures are too great for the Worldwide insurance and re-insurance industry to bear alone.

The reaction of UK insurers has been to apply new terrorism exclusions and conditions as from the 1<sup>st</sup> July 2002 to a much wider range of insurance classes of cover.

To summarise :-

1. The Pool Re "buy back" facility and definition of Terrorism continues for fire & explosion damage only, typically for Material Damage and Business Interruption type policies, whether Fire & Special Perils or All Risks cover.
2. A new definition applies to all other types of terrorism loss or damage. ie:

The policy will not cover damage caused by any act where the use or threat is made for the purpose of advancing a political, religious or ideological cause and to intimidate the public, by any act which :-

- involves serious violence against a person
- involves serious damage to property
- endangers a persons life
- creates a serious risk to health and safety of the public
- is designed to disrupt an electronic system.



3. All types of policy will be affected by this new terrorism definition, not just Material Damage and Business Interruption type policies ie :-

- Employers Liability insurance – for terrorism the indemnity limit is restricted to £5,000,000 any one occurrence.
- Public & Products Liability insurance - terrorism may be excluded totally or just for some trades or businesses.
- Personal Accident and Sickness – terrorism excluded
- Travel insurance – terrorism excluded
- Contract Works Insurance & Engineering Insurance – the new definition applies.
- Motor Insurance – the new definition applies.
- Electronic (Cyber) Risks – virus & hacking risks excluded

There is no “buy back” facility available as in the Pool Re arrangements and also there are also some variations in different insurers approaches to the exclusion or limitation of these “new terrorism” risks, depending on their re-insurance arrangements and perceptions of terrorism risks.

These changes come into effect on new policies and the renewal of existing policies as from the 1<sup>st</sup> July 2002 onwards and we will be drawing your attention to these changes on all applicable policies. We recommend that you ensure that you fully understand the changes in your terrorism cover and conditions that apply from the 1<sup>st</sup> July.

Please speak to your usual contact at Tysers if you would like any further information or wish to discuss any of these issues.

Mike Watson  
Client Services Director