

Marketwatch: Terrorism Insurance 2009

The Standalone Terrorism Market

Current Market Capacity

The Standalone Terrorism Market				
Insurer (Group)	Insurer	S&P Rating	A.M. Best Rating	Max. Capacity in Q1 2009 (US\$ Millions)
ACE USA	Illinois Union	A+	A+ XVr	\$25
AIG	Lexington Insurance Company	A+	A XVp	\$250 to \$500
ARCH Insurance Company (Europe) Ltd.	Arch Insurance Company	A	A VIIIr	\$30
AXIS Specialty Ltd.	AXIS Specialty Ltd.	A	A XV	\$150
Berkshire Hathaway	National Fire & Marine	AAA	A++ XVg	\$1,000+
Glacier Re	Glacier Re	-	A- IX	\$40
Hannover Re	International Ins. Co. of Hannover	AA-	A- VIII	\$25
IRI	IRI/Westport	AA-	A+ XVg	\$40
Lancashire Re	Lancashire Re	-	A- XII	\$200
Lloyd's	Various syndicates	A+	A XV	\$900
Montpelier Re	Montpelier Re Ltd.	A-	A- XIV	\$50
Transatlantic Re	Transatlantic Re	AA-	A XVp	\$50
Western Re/Managers	Lloyd's	A+	A XV	\$70

* as of January 1, 2009

Theoretical Maximum: \$3,080 million

In 2008, standalone terrorism rates were competitive and, at times, more aggressive than pricing of embedded terrorism in property programs, particularly for clients with significant catastrophe (CAT) exposure or locations in central business districts (CBD).

The global economic crisis began to affect the standalone terrorism marketplace in the fourth quarter of 2008. The reduction in terrorism rates reached a plateau as the P/C insurance market began to flatten and insurers reacted to the uncertain business environment.

The Terrorism Risk Insurance Act was extended another seven years, through December 31, 2014, and is now known as the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). Under the extension, the trigger, insurer retention, and government share excess of retention amounts remain at 2007 levels.

Most significantly, the extension expanded the definition of a certified act of terrorism to eliminate any distinction between domestic or foreign acts of terrorism. This acted as an impetus for standalone markets to offer more competitive terms and conditions as they competed with expanded embedded terrorism in the “all-risk” property marketplace.

The issue of noncertified acts of terrorism remains an important consideration. While coverage through TRIPRA removes any exclusion to the extent the act of terrorism is certified, some property insurers add exclusionary language related to noncertified terrorism coverage.

Noncertified terrorism coverage can provide protection for:

- events that are not intended to coerce the civilian population, to influence the policy, or affect the conduct of the U.S. government by coercion (for example, animal rights attacks and/or where an individual or corporation is the target and not the public);
- events that take place outside of large civilian centers where a very limited section of the public may be the target—such as a group of employees, and not the civilian population in general; and
- acts of terrorism under \$5 million in insured

losses across all lines of insurance and from all insurers.

Market Underwriting Position

In the standalone property terrorism market, capacity—the limit of coverage that is available for a single risk—is relatively stable, but it can vary considerably, primarily due to:

- **Location of risk:** The demand for coverage in major metropolitan areas has a substantial effect on the available capacity.
- **Insurer’s accumulation of exposure:** Insurers have aggregate limits on the risks they can take. Capacity can be limited in certain locations, particularly in major metropolitan areas such as New York City, where some underwriters currently have severe aggregation issues.
- **Concentration of exposure:** Terrorists attack targets of opportunity. Although it is certainly possible that an attack could occur anywhere—including a remote town or shopping mall—demand for coverage will likely be higher in metropolitan areas simply because there is a greater concentration of exposures.

If a company does not have sizeable exposures in locations where insurers have aggregation problems, then approximately \$750 million to \$1.5 billion per risk in standalone capacity is available. Capacity excess of \$1.5 billion is available but is more expensive. For locations where markets have aggregation issues—particularly New York City—the estimated market capacity is approximately \$850 million without accessing more expensive capacity.

- Bowring Marsh created the Worldwide Terrorism Facility with 13 Lloyd’s syndicates providing up to \$250 million of capacity for worldwide terrorism property damage and business interruption coverage. The facility is designed to accept terrorism risks for metropolitan city centers.
- AIG/Lexington offers coverage for U.S. domestic locations as well as foreign locations. Lexington has increased capacity for U.S. domestic terrorism insurance, which is available on a case by case basis.

- ACE continues to restrict their standalone terrorism capacity to accounts where they have a significant property position. Their position is to support the ACE Global Property branches for foreign exposures only.
- Berkshire Hathaway can support standalone terrorism submissions.
- Monitoring of aggregates is a priority for all insurers. Capacity in top tier cities is priced accordingly.
- Marsh is able to secure manuscript contingent business interruption cover including first and third party assets with extensions for port blockage, rail infrastructure, and power supply.

Forecast

- TRIPRA is set to expire on December 31, 2014.
- Standalone terrorism capacity remains available and ready to be deployed.
- Insurers are closely monitoring and reacting to the evolving global business climate and global terrorism activity.

Coverage Issues

All standalone markets use the T3/T3A policy forms. Some markets will support a Marsh enhanced T4/T4A form. Marsh has created a manuscript terrorism form which may be available from some markets.

The chart on page 4 compares some of the characteristics of standalone coverage and TRIA coverage. (Marsh would have to undertake a complete review of any form issued to provide a detailed comparison of coverage.)

Product Enhancements

The following products are among those developed by standalone property terrorism insurers.

AIG/Lexington's BioChem ShieldSM can offer a sublimit of up to \$25 million aggregate for biological/chemical terrorism; this excludes nuclear or radiological terrorism. It is offered as an endorsement to

a standalone terrorism policy or to a company's "all-risk" program.

AIG/Lexington's Op ShieldSM covers business-interruption and extra-expense losses triggered by a civil or military authority order to evacuate that arises from either a terrorist act or a threat of terrorism. It is offered as an endorsement to a standalone terrorism policy or to an insured's "all-risk" program. Lexington can offer a sublimit of up to \$25 million aggregate. There is a 72-hour waiting period and the indemnity period is limited to 30 days.

Hiscox at Lloyd's Liability Terrorism Insurance covers damages and claims expenses that the insured is liable to pay due to any claim or claims for bodily injury and/or property damage. The policy includes defense cost expenses. The limit available is between \$50 million and \$100 million aggregate. This is a claims made and reported policy. The reporting provision is as soon as reasonably possible and in no event longer than 90 days after the expiry of the policy. A 72-hour occurrence clause applies.

Lloyd's of London's Riots, Strikes, Civil Commotions, and Malicious Damage covers insured property damage or business interruption losses caused by an act or series of acts of riots and/or strikes and/or civil commotions and/or malicious damage. A 72-hour occurrence clause applies.

Gatlin Bermuda Worldwide NCBR Terrorism Cover provides coverage for individual locations or a specific state. For individual locations, the specific zip-code of the property and a radius around this zip-code is required. This product is available to individual commercial purchasers or by insurers desiring to remove peak risks.

The state-specific solution offers coverage for losses incurred due to an NCBR terrorist event in a specific state so long as the event is deemed to have originated in the named state.

This NCBR solution is offered for several insurance lines—including property damage, business interruption losses, and workers compensation—and pricing is based on the product covered as well as the perceived probability in the specific zip-code or state.

Comparison of Standalone Coverage and TRIA Coverage

Standalone Property Terrorism

Covers certified and noncertified acts of terrorism and can be extended to cover political violence perils

Can cover locations inside and outside the United States

Limits are typically aggregated or with one reinstatement; occurrence limits may be available

Account- and terrorism-specific deductibles

Location- and schedule-specific

Noncancelable policy available

Long-term policies up to three years available

Select insurance markets

TRIA as Part of "All-Risk" Property

Covers certified foreign and domestic acts of terrorism

Covers only U.S. locations

Per-occurrence limits that match property policy limits

Deductibles match property policy deductibles

Coverage for all locations, including unscheduled, depending on terms of property policy

Cancelable terms follow property policy

Policies typically written for one year

All insurance markets that meet insurer definition under TRIA

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