

# Terrorism Insurance

As a result of a number of terrorist attacks in the UK in the 1990's, the UK insurance industry decided to withdraw insurance cover from their standard commercial insurance policy wordings for loss or damage following acts of terrorism. It being considered that it was a difficult cover for traditional insurers to provide as the odds of a terrorism attack are extremely difficult to predict and the potential losses enormous.

## Pool Re

As a result of these changes, and in conjunction with the UK government, a new insurer (Pool Re) was established to cover losses resulting from terrorist acts within England, Scotland and Wales (It is to be noted that this scheme does not apply to risks located in Northern Ireland, the Isle of Man or the Channel Islands).

The Pool Re facility can cover most types of commercial property (e.g. buildings, contents, construction projects and plant and machinery) and can also provide consequential losses arising as a result of terrorist acts. This additional cover needing to be specifically requested and provided as an "add on" to a standard Fire or All Risks insurance policy. Whilst solving an immediate problem, it is considered by some however to be cumbersome as the requirements of the Pool Re scheme do not permit selection of individual properties within a larger portfolio to be chosen to be protected against terrorist acts. If terrorism insurance is required it must be arranged on all properties owned by the Insured.

## Risks Eligible

As with all insurance policies the terrorism wording does contain certain conditions and the policy defines an Act of Terrorism as:

"...acts of persons acting on behalf of, or in connection with, any organisation which carries out activities directed towards the overthrowing or influencing, by force or violence, of Her Majesty's government in the United Kingdom or any other government de jure or de facto."

Whenever an incident occurs that may be considered an act of terrorism discussions take place between Pool Re and the UK government. Once the facts are established and it is considered an act of terrorism, HM Treasury will issue a certificate of confirmation. It is interesting to note that the last event that was acknowledged as an act of terrorism was the IRA bombing of St Mary's Axe in 1992. The 7/7 bombings in London in 2005 were not declared an act of terrorism.

Incidents that do not fall within the definition of an act of terrorism under the Pool Re scheme may be covered under the relevant insurance policy. For example, most property policies routinely cover malicious damage, but the policy terms and conditions must be carefully checked.

Since the original formation of Pool Re a number of new insurers also now provide "stand-alone" terrorism insurance cover. These include Hiscox and Beech Underwriting, and these insurers are often able to provide more flexible (and sometimes wider) policy cover at competitive premium quotations.

The insurance market conditions apply to commercial risks. Household policies have been largely unaffected by the changes, however it should be noted that some insurers do restrict cover for terrorism acts under household policies. The insurance industry generally regards applications for insurance from offshore entities (i.e. trust and companies) as commercial property risks and apply the terrorism exclusion. Should trustees or company directors consider the properties under their management should be at risk from damage following terrorism acts then a request to include such extended cover should be provided to your insurance broker at the time of policy renewal or for newly acquired properties, at the time of the quotation request for the main property damage cover.