



News for Our Clients

A monthly news bulletin provided by PIA and your insurance agent

Homeland Security – What It Means to Insurance

The events of September 11, 2001, opened the eyes of all of us to our personal vulnerabilities. Until then, we thought terrorism was something that always happened somewhere else.

However, on that day, tragedy hit home. The loss of life was devastating; the financial impact is still being tallied – with some estimates at nearly \$300 billion.

With the devastation of the terrorist attacks, the faltering stock returns of insurers, and the soft premium markets of the past 15 years, the insurance industry found itself broad sided by huge losses and undercapitalized in the event of more such acts of terror.

New Law Passed by Congress

After more than a year of politics, the Terrorism Risk Insurance Act of 2002 was signed into law. This landmark legislation provides security to the commercial insurance market and, even more important, to the industries that rely on insurance to assure their ability to stay in business.

Why a Law Was Needed

The insurance agent with whom you are familiar - as you likely work with the insurance agency down the street - is only the “front man” in a large complex mechanism called the insurance industry. While you buy insurance from an agent

with whom you are familiar and he or she places your coverage with an insurance company whose name you’ve heard, the chances are pretty good that the risk is being shared by reinsurance companies located around the world.

Starting January 1, 2002, the reinsurance markets excluded terrorism insurance from commercial insurance policies. With this loss of financial security, insurance companies could no longer offer terrorism insurance coverage at previous prices – and in some cases - could not offer it at any price.

Construction companies, real estate developers, and all of the related down-stream businesses found themselves unable to operate. Our President and most of our Congressmen realized this problem was too great for any single industry to handle, and without their action, all policyholders’ protection would have been threatened.

What The Law Does Not Do

This is not a “bail out” by the government. The government did not give loans or make any contribution to the losses insurance companies had because of September 11, 2001. No government payments will be made in the future unless there is another attack causing huge damage. The Secretary of the Treasury, in consultation with the Attorney General and Secretary of State, must determine that



there was an act of terrorism. To qualify, there must be a loss in excess of \$5 million dollars; be a violent act dangerous to human life, property, or infrastructure; have damage on U. S. soil or to U. S. related sites, such as an air carrier or vessel; and be caused by those acting on behalf of a foreign person or foreign interest as part of an effort to coerce the civilian population or the United States government policies.

The insurance companies also have a large deductible they must pay before the federal government steps in to help, and the law requires insurance companies to repay the government.

What the Law Does Do

The new law does provide the security needed to sustain the industry in the event of more such tragic events.

It says that terrorism insurance cannot be denied to any commercial policyholder unless

the policyholder signs that the terrorism coverage is not wanted or unless the policyholder does not pay the premium.

In Virginia, a law goes into effect on July 1, 2003, that says that commercial insurance policyholders who do not purchase the terrorism coverage cannot collect insurance if a fire is caused by a terrorism attack.

A similar law has been introduced in the District of Columbia, and it is expected it will go into effect countrywide, as the damage done to property will most likely be done by a fire.

If your insurance agent hasn't said anything to you yet about your need for terrorism insurance for your business, you should contact him or her.

What's Happening?

Insurance agents are seeing a wide variety of pricing for terrorism insurance coverage. In some instances, companies are not charging anything for it. In other cases, there is a sizeable cost. That's perhaps to be expected as some businesses and some areas are far less likely to be have a loss because of terrorism than others.

In the District of Columbia, the Insurance and Securities Regulation Department has approved terrorism insurance rates by tier with downtown being 3 cents per \$100 value for commercial properties and .018

for apartment dwellings. The middle section, which includes Georgetown and Capital Hill, also pay .018 cents per \$100, and outer sections pay a half cent per \$100 value. This rate is a huge reduction from an earlier filing asking for 10 cents per \$100 value.

Approval was also given in the District of Columbia to a maximum 25 percent increase in property rates, not counting terrorism coverage. This interim rate will be in effect for two to six months while a study is being done of the rating structure.

Do People Want Coverage?

Where there is a cost associated with the coverage, most insurance agents and companies are finding that the policyholders are signing that they do not want the coverage.

Buying Terrorism Coverage

Should you buy terrorism coverage? Just as you talk with your insurance agent about other facets of your business, you should also discuss this. However, it's your decision. You certainly need to look at the chance your business would be affected by another attack.

Remember, what we have said here has no effect on your homeowners or personal property coverage. We are speaking of only insurance on businesses.

Asbestos Litigation

Asbestos litigation is the longest running mass tort in the history of this country. Its effect on the health and economic security of millions of Americans becomes increasingly apparent.

The number of claims for mesothelioma (a cancer caused by asbestos) has remained fairly steady - about 2,000 a year.

However, a study done by actuarial firm Tillinghast-Towers Perrin found that 94 percent of claims filed in the year 2000 were by nonmalignant claimants whose asbestos exposure has not affected their ability to perform everyday activities.

Meanwhile, a large number of people and businesses are affected. At least 61 companies have filed for bankruptcy protection because of asbestos liabilities thus victimizing working Americans whose jobs and retirement funds are in jeopardy.

When companies are sued, their stock prices often fall. Jobs, savings, and retirement plans of employees, retirees, and shareholders are in danger.

At least 60,000 jobs have been lost because of asbestos-related bankruptcies. Workers at these firms have lost 25 percent of their 401(k)'s value.

Congress is studying the problem; one recommendation to them, by the Rand Institute for Civil Justice, is claims be prioritized, so those suffering from asbestos-related diseases get compensation and others wait until they are sick before their claims are considered.

We hope Congress will soon come up with some solutions.

Homeowners - A Loss To Insurers

A study done by Aon Re Worldwide shows that the U.S. homeowners' insurance marketplace increased its rates by 7.8 percent since May/June of 2002. It also shows the average hike for new rate filings in the last six months is 12.5 percent.

In spite of these increases, Aon says the homeowners' insurance rates are not high enough to pay the cost.

"The returns still need improvement to fully recover the cost of capital and assure needed underwriting capacity for this essential line of insurance," said Bryon Ehrhart, president of Aon Re Services.

Aon's study began in May/June of last year and will continue during the coming months.

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