



PARKER | SMITH | FEEK

COMMERCIAL INSURANCE

EMPLOYEE BENEFITS

PERSONAL INSURANCE

RISK MANAGEMENT

SURETY



## PRACTICE GROUP: REAL ESTATE

DECEMBER 5, 2019

### CHOOSING TERRORISM COVERAGE

[John Larson](#) | Vice President, Account Executive

Whether you have one building or an extensive schedule of properties, having a high quality insurance portfolio is key to maintaining good relations with tenants, lenders, regulators, and other stakeholders. Terrorism coverage can be an important part of that program.

#### CHALLENGES OF FEDERAL TERRORISM COVERAGE

Congress enacted the [Terrorism Risk Insurance Act](#) (TRIA) following Sept. 11. In 2015, it was reauthorized under the [Terrorism Risk Insurance Program Reauthorization Act](#) (TRIPRA). Under the Act, federally backed terrorism coverage typically can be added as an extension to a specific line of insurance and covers "certified" events only.

For the event to be deemed "certified," the following criteria must be met:

- It must be violent or considered dangerous to property, infrastructure, or human life.
- It must be committed by one or more individuals on behalf of any foreign person or interest, in order to coerce the U.S. civilian population or the policy or conduct of the United States government.

- It must cause damage within the United States (or outside the country or on U.S. ships or at U.S. missions).
- It must cause property and casualty losses over \$5 million.
- It must be certified by the Secretary of the Treasury, in concurrence with the Secretary of State and the Attorney General of the United States.

If the event meets the above criteria and coverage was already purchased, then the federal government would provide reinsurance to the insurance carrier providing the primary coverage.

As you can see, the bar for a terrorism event to be considered "certified" is high. For example, [the 2013 Boston Marathon attack](#) that killed five people and injured approximately 264 was never certified by the federal government, so government-backed terrorism coverage purchased by businesses around that event was never triggered.

The question about whether to purchase the coverage usually arises in conjunction with the property and liability insurance renewals. However, terrorism coverage can be

*continued >*



added to a program at any time (prior to an event). In some cases, terrorism insurance can be a crucial and major component in the portfolio — particularly if the property is iconic, large, or bustling with people. Terrorist targets often focus on these kinds of properties.

**In some cases, terrorism insurance can be a crucial and major component in the portfolio—particularly if the property is iconic, large, or bustling with people.**

#### STANDALONE TERRORISM PROGRAMS

So, is there a way to purchase terrorism insurance that isn't subject to the federal certification process? There is. Standalone terrorism programs provide broader coverage than the federally backed programs and offer the following advantages:

- An event does not need to be certified by the federal government in order to be covered. Standalone policies determine what defines a terrorism event.
- They are rated on available capacity in the market and the insured's actual exposures versus a simple percentage of the host policy premium (property/liability policies).
- A standalone policy has its own limits, deductibles, terms, and conditions directly from the insurer seeking to write the business.
- Standalone policies can be tailored to provide coverage to a single location or the whole schedule and can include international locations.
- Removing terrorism from the property program can potentially expand the market and create more competition for the property (not including terrorism) program, driving down costs.

- Standalone programs are not dependent on the federal government intermittently reauthorizing the Act.
- An insured has direct recourse against the insurer if a claim is denied in whole or in part. If an insured has the federally backed coverage under the Act, then they have no recourse against the federal government.
- Standalone policies boast shortened recovery times from when a claim is made than federal programs.

In the end, terrorism insurance products (and the insurance market) have evolved dramatically since the early days following 9/11. As mentioned, while the federally backed program provides "certified" coverage, most events would never qualify under the Act and go uncovered.

New standalone terrorism insurance products do not have to adhere to those certification requirements and therefore are more favorable to buyers. The ability to trigger coverage may be the difference between financial support and a substantial recovery following an event and an uninsured loss. Today, there are numerous ways to address the threat of terrorism through proper preparation, exposure reduction (security), and the purchase of terrorism insurance to help with recovery. If you haven't considered standalone terrorism coverage lately, talk to an experienced risk manager or insurance broker, and they can help you find the right product that meets your needs.