

# Marketwatch: Terrorism Insurance 2005

## Focus: Private Equity and Mergers and Acquisitions

Congress is now debating the future of the Terrorism Risk Insurance Act (TRIA), a law that helped keep the economy on track following the terrorist attacks of September 11, 2001.

Terrorism insurance is critical to many industries and companies of interest to private equity firms. Long considered little more than an afterthought, terrorism insurance became expensive and hard to find after September 11. In November 2002, President Bush signed TRIA, which created a federal reinsurance backstop in the event of certain catastrophic terrorism losses.

Congress must decide whether to let TRIA expire at midnight on December 31, 2005; renew it as is; or renew it with changes. A June

2005 Treasury Department report to Congress and testimony from Treasury Secretary John Snow indicate:

- The Bush administration will only support TRIA if substantial changes are made.
- Proposed changes would place more financial obligation on insurers' shoulders in the wake of a terrorist event.

In late November, the U.S. Senate and House of Representatives were working to reconcile their versions of TRIA extension bills. The Senate bill would raise the trigger for a federal backstop to \$50 million in 2006 and \$100 million in 2007. The House version would add domestic terrorism and group life to the program and would include a possible third year for transition to a private pooling mechanism.

### MMC Vice Chairman Testifies on TRIA

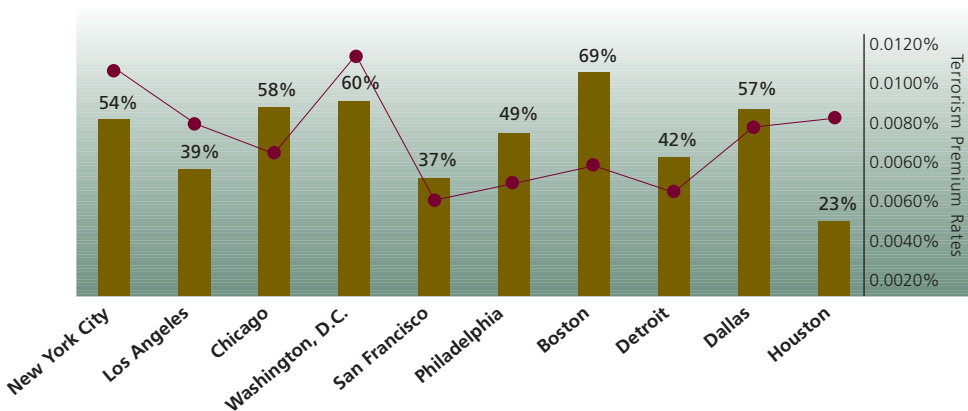
"Commercial insureds need terrorism coverage not just for peace of mind, but for their businesses," Jack Sinnott, vice chairman, office of the CEO of Marsh's parent, MMC, said in recent testimony to Congress.

"In some cases, companies may choose to purchase terrorism insurance (or not) based on their particular risk profile. In many cases, however, purchase of terrorism coverage is not optional—it is required by state laws and regulations, contracts, loans, and mortgages."

Sinnott said that private insurance markets should be able to create a viable means of financing terrorism risk, such as a pooling arrangement. But while a new mechanism is developed, he said, the federal government will still have a vital role to play.

### Property Terrorism Insurance Purchasing and Premium Rates

■ Take-up rates ● Terrorism premium rates Source: Marsh's Property Practice



Interestingly, the rates of terrorism insurance purchased in metropolitan areas are not directly correlated with price.

Premium rate is defined as the premium divided by a company's total insured values.

**Terrorism Risk Due Diligence**

A facility threat assessment could prove a useful tool during due diligence operations. During such an assessment, a security professional will carry out an exercise known as “adversary characterization,” according to security experts at Kroll, a Marsh sister company. This produces useful information in security planning, including the following:

- Who: Identification of people likely to carry out an attack on assets.
- How: The tactics and techniques that may be employed in executing an attack.
- What: The tools, weapons, and materials available for terrorists’ use in achieving their objective.
- When: Historical data related to the timing of an attack.
- Where: Geographic considerations—on both a large and a localized scale.
- Why: Adversaries’ motivations for the acts and their end objectives.

The assessment will also recommend upgrades, develop cost estimates and a general implementation schedule, and provide the basic tools necessary for the organization’s staff to manage and maintain an adequate level of security over time.

**Percentage of Companies Buying Property Terrorism Coverage**

Industry	Percentage purchasing coverage		Price as percentage of property premium	
	2004	2003	2004	2003
Financial institutions	65.3%	26.8%	5.3%	3.6%
Real estate	60.2%	30.2%	6.4%	5.1%
Health care	60.1%	31.0%	3.9%	3.3%
Media	58.3%	35.3%	4.6%	6.1%
Education	53.7%	21.6%	4.4%	4.8%
Hospitality	48.4%	31.5%	7.1%	7.7%
Retail	48.0%	20.0%	3.7%	3.7%
Tech/telecom	42.5%	42.5%	4.4%	4.0%
Utility	41.7%	27.1%	6.3%	4.9%
Public entity	41.5%	25.9%	4.9%	4.2%
Transportation	40.5%	29.5%	4.8%	4.8%
Food & beverage	39.0%	34.7%	3.7%	4.7%
Manufacturing	37.8%	18.2%	3.8%	3.1%
Energy	35.5%	40.5%	7.9%	8.0%

Source: Marsh’s Property Practice

**More Companies Purchasing Terrorism Insurance**

The percentage of companies purchasing property terrorism insurance has steadily increased since the second quarter of 2003. The above table shows the percentage of companies purchasing coverage along with the price of coverage as a percentage of overall property premiums.

A recent Marsh study of terrorism insurance buying patterns in the United States found:

- over half of all large and mid-size businesses purchased property terrorism coverage in 2005, up from 27 percent in 2003;
- smaller companies were less apt to purchase the coverage; and

- the cost of property terrorism insurance was relatively unchanged in 2005 averaging 4.5% of property premium.

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