

## **TERRORISM INSURANCE COVERAGE**

### **February 17, 2003**

In November of 2002, President Bush signed legislation requiring that all insurance companies offer coverage for loss due to terrorist acts. Because of the enormous financial consequences of such a loss on the insurance companies, the federal government will participate in payment of such losses.

In order to comply with this new legislation, insurers are required to offer coverage and may charge a premium for such coverage. Insureds have the choice of rejecting coverage. Some companies, depending on the type of insurance policy, are simply endorsing the coverage onto the policy at no charge. You may have already received notices from various insurance companies and wonder how they affect you and whether you should accept or reject coverage when given the choice. Below are examples of terrorist related losses, which may affect coverage on various types of insurance policies.

#### Commercial Package Policy with Property & Liability Coverage

- Loss of physical property
- Loss of life or injury to 3<sup>rd</sup> parties visiting your location
- Loss of business income

#### Directors & Officers Liability

- Accusation that decision to locate or travel to an area hit by a terrorist attack was a negligent act.

#### Event Cancellation – resultant loss of income or recoverable expenses

- Event cancelled or interrupted due to terrorist attack
- Transportation shut down due to attack, affect attendance or prevent speakers from making it to event

#### Crime

- Burglary & robbery in the aftermath of a terrorist attack

The government gave no direction with regard to allowable premium charges with regard to the addition of terrorist coverage. Insurance regulatory agencies are working to cap the increased premium for terrorism coverage, specifically in large cities. Already DC and NY have set a cap at 25% for building coverage in their cities.

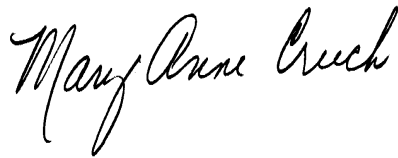
Other coverages will more than likely start out high for full terrorism coverage and with time, be lowered. Experience with event cancellation coverage has shown this to be true. With regard to event cancellation coverage, offers of coverage are coming in with 3 options. 1) Full terrorism exclusion 2) Limited terrorism (capped at \$250,000 or 50% of limit; attack must be within 25 miles of event site; attack must be within 30 days of the event) 3) Full terrorism. Premiums are very

reasonable for the limited terrorism coverage and extraordinarily high for full terrorism. At the very least we recommend that limited coverage be purchased.

Directors & officers liability premiums for terrorism are running between 4% and 10% additional premium. Again, this is very reasonable and for protection against your corporate entity and the board of directors, it is recommended that terrorism coverage be purchased.

Beyond these specific recommendations, a careful analysis of your foundation's financial condition should be weighed against the premium and how your organization might be affected by a loss due to terrorism.

Feel free to contact us at JZA, to discuss options for your specific needs.



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