DEBUNKING TRIA - WITH McGOWAN TERRORISM & SABOTAGE

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Is the US government-backed terrorism program, the Terrorism Risk Insurance Act, reflective of insurance buyer's terrorism needs?

The most popular purchase for US terrorism insurance buyers is the default option provided to clients via the government TRIA scheme, but here are three reasons to recommend a standalone terrorism policy to your Clients.

It isn't reflective of Policyholders' true terrorism exposure. Where are Policyholders' loss most likely to flow from?

From our experience underwriting these risks at McGowan, the answer is non-damage BI losses arising near insured premises, near their suppliers' premises, and at their utility providers.

TRIA attaches to, and mirrors, underlying Property or Commercial Combined forms which have not explicitly considered the impact of terrorism attacks, which are not at the insured premise, can have on Policyholder's revenues. Does your TRIA policy cover denial of access to the premises? Contingent BI and utilities? Loss of attraction? Threat? These are tangible losses from terrorism attacks near an insured location but without physical damage at those locations. They are all covered as standard by McGowan's T&S standalone terrorism policy.

Additionally, are their property policies covering post-loss coverages at the insured premise, such as post-loss looting or even brand rehabilitation costs? Again, this is standard cover under a standalone policy.

Will your TRIA policy respond to a physical attack at an insured premise, even if it causes property damage? When will it respond?

The way the Terrorism Risk Insurance Act has been set up reflects the context in which it was born. After the 9/11 attacks, TRIA was designed to cover terrorism attacks that caused mass economic and property damage through large bomb detonations or perhaps hijacked vehicles, as seen in the attacks on the twin towers and the Pentagon.

Since then, the modus operandi of terrorism organizations has changed, as large and well-funded plans for terrorism became harder to deliver, and small lone wolf attacks with low-grade weapons have become more common. As such, terrorism attacks have become more frequent but less damaging in terms of their scope and destruction.

These attacks are unlikely to trigger TRIA, which has set a deductible ceiling of USD5m of aggregate insured losses before an incident can be declared terrorism by the US govt. Increasingly, attacks do not reach the ceiling and therefore leave Policyholders with an unintentional gap in their coverage. No incident has ever triggered TRIA in its whole lifetime-- Not the Boston Marathon bombing, the 2017 New York City truck attack, or even the 2016 Orlando nightclub shooting, which killed 49 people.

A standalone terrorism policy like McGowan's T&S will react to any incident considered political, ideological or religious in its motivation with nil deductibles and has crucially been tested by claims and paid out appropriately to its Policyholders.

The final point to be made here is when will a TRIA policy payout? There is no set time frame within TRIA for when the government must decide whether the incident is declared a terrorism event under the definition of the program. This delay in decision-making is crucial for insureds, as SMEs often work on very tight margins with their cash flow-- should a prolonged claim occur, their BI might become deadly for their business. The claims process of private insurers is quick, precise, and tested by prior incidents.

Is your TRIA premium reflective of the terrorism exposure?

The Terrorism Risk Insurance Act does not mandate to insurers how much they should charge for their terrorism exposure. Therefore, Premiums are often charged as fixed percentages of the underlying Property policies that TRIA will attach. As a result, when there is a hardening of the Property market, or when the premium rises on the Property policy due to claims history, TRIA premiums rise too. Again, this shows a lack of thought for the terrorism insurance buyer that's penalized for outside factors that have no bearing on their terrorism threat. McGowan's T&S has a competitive but consistent approach to pricing which means no nasty premium jumps at renewal or volatile rates for Clients with homogenous exposures

As the following table illustrates, it is essential to consider how this coverage protects your business over and above TRIA:

McGowan T&S Standalone Terrorism Policy vs. TRIA Standalone TRIA

Broad definition of terrorism, including coverage for political, religious and ideological purposes	For any coverage to apply, first, the Act must be certified by the Secretary of Treasury, in consultation with the Secretary of Homeland Security and the US Attorney General
Includes any act which is Certified by the US Government under TRIPRA (But does not require certification)	Losses under USD 5M across all industries/classes will not be Certified. There will be no indemnity for losses to Insureds under this level
Clients can elect a Terrorism specific limit and deductible, and which properties are to be covered, meeting exact client needs	Unable to tailor TRIA to fit client needs. TRIA follows the terms and conditions of the policy in which TRIA is purchased.
Recognized by lenders as a preferred alternative to TRIPRA	Requires certification before payment – which may be delayed (No current time limit in TRIPRA)
Can provide coverage for locations in the US and the rest of the world	Covers US locations only

Sources:

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