

Does My Business Need Terrorism Insurance?

BUSINESS INSURANCE Q&A

Terrorism insurance is offered separately or as a special addition—called an “endorsement” or “rider”—to your standard commercial property insurance policy. A standard business policy alone will *not* cover losses caused by terrorism.

Terrorism coverage is a public/private risk-sharing partnership that allows the federal government and the insurance industry to share losses in the event of a major terrorist attack. The Terrorism Risk Insurance Act (TRIA), which was enacted by Congress in November 2002, ensures that adequate resources are available for businesses to recover and rebuild if they are the victims of a terrorist attack. Under TRIA all property/casualty insurers in the U.S. are required to make terrorism coverage available.

Q. What is covered by terrorism insurance?

A. A commercial terrorism policy covers damaged or destroyed property—including buildings, equipment, furnishings and inventory. It may also cover losses associated with the interruption of your business. Terrorism insurance may also cover liability claims against your business associated with a terrorist attack.

Q. What’s excluded in a commercial terrorism insurance policy?

A. Depending on your state, a terrorism insurance policy may exclude coverage for fire following. Nuclear, biological, chemical and radiological (NBCR) attacks are also excluded, except in the life, health and workers compensation lines of insurance.

Cyber risks are also an emerging terrorist threat. It is possible that property damage or injuries to employees could be caused by a cyber-attack—for instance an attack that causes equipment to malfunction. On the other hand, most computer attacks are not violent and do not cause physical damage. In general, terrorism insurance is unlikely to cover a cyber-attack, and a small business concerned about this risk should consider purchasing separate cyber liability insurance.

Q. How does terrorism insurance work?

A. Losses are only covered by a terrorism insurance policy if the U.S. Department of the Treasury officially certifies an event as an act of terrorism. This requires that the act be violent and be driven by the desire of an individual or individuals to coerce U.S. civilians or government. No act shall be certified by the Secretary as an act of terrorism if property and casualty losses, in the aggregate, do not exceed \$5 million. The act must also cause at least \$100 million in damage to be considered a terrorist attack.

The definition of a certified act of terrorism has been expanded to cover both domestic and foreign acts of terrorism.

Factors to Consider When Deciding Whether to Buy Terrorism Insurance

About 60 percent of U.S. businesses have terrorism insurance. A few factors to consider when deciding whether or not to insure yourself against terrorism include:

- **Business Location**—Rural and residential areas are less likely to be targeted by a terrorist attack. Commercial urban centers, as well as airports and train stations, have a higher risk for terrorist attack.
- **Cost**—Premiums for terrorism coverage range from \$19 to \$49 per million of insured value, depending on the size of the company. The expense generally represents 3 to 5 percent of a company's property insurance costs.
- **Type of Business**—Certain industries—such as the energy sector—have a higher risk of being targeted for terrorist attacks. If your business is part of a high-risk industry, you may want to consider purchasing terrorism insurance.