



EXPERTISE

MIND THE GAP

Changes in the nature of terror attacks over the last couple of decades are exposing businesses of all sizes to a new set of risks.



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The insurance industry has moved to provide cover, but it's essential that businesses understand exactly how it will respond in the event of an attack.

The terror attacks of the last few years illustrate the changes. Rather than focus on property damage, as was seen in the 1990s with IRA bombings such as those at the Baltic Exchange and in Manchester, today's terrorists are much more likely to target loss of life and mass casualties. Although improvised explosive devices are still being used in some attacks, for example a homemade bomb in the 2017 Manchester Arena bombing, weapons such as knives, firearms and vehicles are increasingly common in today's terror attacks.



VE - DO NOT CROSS

EXAMPLE

A terrorist knife attack occurs at a company premises. There is no physical damage but a safety cordon is put in place whilst the police neutralise the threat. In this case, the client could claim under a non-damage terrorism policy (subject to the HM Treasury certifying the event as a terrorist event) but would not be covered by a terrorism damage policy.

RISK SHIFT

This has resulted in a different risk exposure for businesses. Rather than suffer property damage, a business can find itself unable to operate after a terror attack as a result of a police cordon preventing access to their premises. Similarly, takings can plummet after an attack due to a reduction in footfall - small businesses can be hit particularly hard, since they are unlikely to have the requisite cash reserves needed to keep afloat during times of limited or no trade.

This shift was seen in the London Bridge attack in 2017, where businesses in Borough Market were forced to close for nearly two weeks while a police cordon was in place. As many of those affected were small businesses, this loss of revenue had serious implications for their survival, with some forced to turn to charity for support.

At the time, this loss wouldn't have been covered by insurance. Terrorism insurance only responded if there was physical damage to the policyholder's premises.

MEETING NEEDS

To address this gap in cover, the government announced in 2018 that it would amend legislation to enable Pool Re to extend its cover to include non-damage business interruption losses resulting from acts of terrorism. The government is keen to see more businesses take out terrorism cover and the non-damage extension may help this push.

The resulting Counter Terrorism and Border Security Act 2019 received Royal Assent in February 2019, with Pool Re issuing new underwriting agreements a few weeks afterwards. "This is very welcome," says Paul Higham, property account manager at Allianz Insurance. "It fills the gap in cover and will give businesses more choice around how they protect themselves from the risk of terrorism."

COVER CHOICES

With non-damage business interruption cover now available in the market, clients can choose to buy this on its own, opt for the core terrorism cover, which includes business interruption with a physical damage trigger, or take out both to provide more comprehensive protection.

COVER IMPLICATIONS

While it's good that businesses can access this valuable protection, it's essential that they are aware of how the two types of cover respond in the event of a terror attack, and the implications if they only take out the non-damage extension.

If a business only has stand-alone non-damage cover, it will be able to claim if it suffers a business interruption following a terror attack. However, if it sustains any physical damage to its premises as a result of the terror attack, the claim will not be valid. Brokers will need to work with their customers to ensure that the new legislation does not create a new gap for physical damage, and that customers are comprehensively covered under their insurance policies.

BROKER SUPPORT

Filling the gap in cover that has emerged due to the changing nature of terror attacks is positive and will help to protect the livelihood of more of the UK's small businesses. But, as it's impossible to predict what form the next attack will take, the support a broker provides to its clients in explaining the risks they face if they only take out the non-damage extension could be invaluable.

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