

When Insurance Can And Cannot) Cover Terrorist Acts

Forbes

FORBES - After the terrorist bombings in Brussels last week, over 200 flights going to or through the affected airport were canceled, disrupting travel for thousands. The airport remained closed down through Friday. Some of the airlines with itineraries to Brussels issued refunds to their customers. However, if individuals had other trips or hotel stays that depended on this leg of their journey, they may very well be out the money they put into it. In moments like this, many individuals turn to insurers to provide compensation for their monetary losses. However, due to the many nuances within insurance policies individuals' mileage may vary.

Travel Insurance

As we've seen in Brussels, whenever a major terrorist event occurs, it has the potential to disrupt flights for multiple days. Even if flights aren't canceled, some people may not wish to travel out of a concern for their safety. In these cases, travel insurance can help people recover the cost of their peril. This coverage can be broadly broken down into two areas of major areas: trip cancellation/interruption, and medical. While the latter can be fairly all encompassing, trip cancellation insurance comes with a long list of exclusion and fine print that can leave consumers out in the cold.

SAUL LOEB/AFP/Getty Images)

Whether a travel insurance policy will cover the cost of a canceled flight or hotel room will often come down to if the threat was known at the time of booking. Amy Bach, Executive Director of United Policyholders, a nonprofit consumer advocacy group, says, "Before you buy a policy that includes coverage for a cancellation due to terrorism, find out whether it limits coverage if there was a prior event in the area within a certain time period before you bought the ticket." If you buy a policy after a terrorist attack has already happened, you will not be able to get coverage for the trip. Bach adds that in such a case, your trip becomes a "known peril".

Credit Card Travel Insurance

In some cases, if you book your trip using a credit card, you may automatically be granted some form of travel insurance. Most of the best travel credit cards come with travel accident insurance that works similarly to a life insurance policy. A few of these cards will also cover trip cancellation/delay and any damages that result from your bags being lost. However, in most cases terrorist acts are not listed as a covered loss. It's always a good idea to familiarize yourself with your card member benefits, and never assume your card will offer you protection.

Domestic Coverage: Commercial and Personal

When it comes to insuring your property in the United States against terrorist attacks, coverage will differ depending on whether it's for a home or business. The government created clear mandates for providing businesses with insurance policies against acts of terrorism, though the same was not done for personal coverage.

Over a decade ago, the U.S. Government issued the Terrorism Risk Insurance Act of 2002 (TRIA). The law provides a federal backstop for insurance losses that result from terrorism. In return, the law requires property and casualty insurers to allow businesses to buy terrorism coverage.

The legislation was a direct response to the devastating insurance losses that resulted from the 9/11 attacks. In 2014, the Insurance Information Institute reported that the terrorist acts that day resulted close to roughly \$25 billion in insured property losses, making it the costliest terrorist act by insured property loss – the largest amount in the history of insurance.

Event Country Location Insured Property Loss (millions)
Septmeber 11th Attacks US New York, Washington, D.C., Pennsylvania \$25,122
'93 London Bombing UK London \$1,212
'96 Manchester Shopping Mall Bombing UK Manchester \$996
'92 London Financial District Bombing UK London \$897
'93 World Trade Center Bombing US New York \$835

Source: Insurance Information Institute

Because TRIA only mandates terrorism coverage be made available to businesses it created some gray areas when it comes to insuring personal homes and apartments. Most of the policies for these properties do not list terrorism as a covered loss, though few also explicitly address it. In their homeowners policies, Farmers Insurance states it will not cover “destructive acts,” which includes terrorism, civil war, or insurrection.

When it comes to auto insurance, damage resulting from terrorist acts is generally covered by

comprehensive portion of your policy.

Why Property & Casualty Insurers May Be Hesitant To Cover Terrorism

Auto and home insurance companies, even large ones like Allstate ALL +1.06%, run on volatile operating margins. Typically, 70% to 80% of their underwriting income goes towards paying out benefits. An abnormal increase in the number of claims can cause these companies to operate in the red.

As a result, insurance companies are hesitant to cover fringe events that could wipe out their business. Most policies will explicitly state they will not cover damage resulting from war and nuclear explosions – both of which would cause massive property damages that have the potential to bankrupt insurers. As we’ve seen in the aftermath of the 9/11 attacks, it took government intervention and financial backing in order to provide terrorism coverage to businesses.