

Counting the cost of terrorism

New study examines the calculation of risk in dangerous times

James Brewer

A STRING of piracy attacks in the Gulf of Aden puzzled authorities, until the locations were plotted on a map.

Investigators who found that the incidents were in a straight line between Somaliland and Yemen, followed the route, discerning further suspect vessels keeping a furtive lookout.

Conclusion: the vessels may well have been involved in people smuggling, and piracy against yachts was being carried out to help pay the running expenses.

This account was released to underwriters, brokers and loss adjusters at a reception in Lloyd's Old Library, to illustrate the difficulty of categorising the risks in, and response from, a market alert to major misdeeds on land and at sea.

Risto Talas, visiting lecturer in port and maritime security at City University, cited the Gulf dilemma during the meeting, which saw the launch of a comprehensive research study, War Risks and Terrorism, by the Insurance Institute of London.

Mr Talas and Nigel Miller, marine director of Miller Insurance Services, contribute a key chapter on marine insurance to the book. The whole field of terrorist risk coverage has been dominated by the London market, especially since many of the US carriers fled from the category after the September 11 attacks.

A former Lloyd's underwriter of marine war and terrorism, Mr Talas said there appeared to be few links between piracy and terrorism.

He and Mr Miller said that terrorists traditionally shied away from targeting the maritime industry, largely because they used shipping routes for illicit transport, smuggling and trafficking, but terrorist could begin to behave as pirates to deliver their attacks by other means, and take advantage of the poorer onboard security regimes compared with high profile buildings.

The book is perhaps the most exhaustive study to date on the background, techniques and wordings of the London and overseas markets in offering cover for this hard-to-define area.

Many of the legal issues that can arise from the provision or exclusion of marine and non-marine cover are examined in a compendium that is a clear bargain compared to other offerings on the subject.

Mr Talas and Mr Miller warn about the huge aggregation of risks that can build up in highly frequented waters, citing such potential bottlenecks as the Panama Canal, Suez Canal and Middle East Gulf, and specific events such as the G7 summits, the World Cup and the Olympics – the gathering of cruiseships for the 2004 Athens Olympics in particular has been highlighted by the book's editor, Hermes Marangos, a partner at Clyde & Co.

The writers say underwriters have changed their view that floating objects were less vulnerable to aggregation of risk, following the July 2001 attacks on Colombo airport, September 11 in the US, and the 2006 UK-based alleged plot to bomb 10 aircraft.

Aggregation of marine risk is mostly an issue in war risks P&I, and particularly in the cruise industry.

Scale of the risk continues to increase. In Port Canaveral, it is possible to have 10,000 passengers asleep on board vessels within a 1km radius.

Following the 2002 speedboat attack off Aden on the tanker *Limburg*, which was settled for a nominal sum after initial demands for huge cash deposits, it has been realised that a pollution claim involving desalination plants of the major states of the Western Gulf could produce business interruption claims of unprecedented size.

Perhaps surprisingly, insurance treatment of the container trades has been complicated by the uncertain ability of carriers to pass on the cost of war risk supplements. Sri Lanka and Yemen, which have a significant feeder box trade, have set up \$50m escrow accounts against which first loss war claims can be drawn.

Mr Marangos praised the dozen contributors who he said had gathered extensive from a market which was secretive in discussing particular issues.

One of the strengths of the book is its international perspective, ranging from the World Trade Center legislation to the highly controversial terrorism Risk insurance Act of the US, and insurance pools in the UK, Germany, France and elsewhere.

The marine market has addressed the questions in a more systematic fashion historically, but the distinction with non-marine has become blurred. For instance specialist buyback products are generally provided by the marine market, even though most of the business has nothing to do with the sea, Mr Marangos says.

War Risks and Terrorism, published by the Insurance Institute of London, 20 Aldermanbury, London EC2V 7HY. Price £40 to members, £50 to non-members. Orders can be placed via www.iilondon.co.uk

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