How September 11 Changed Insurance

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We are now more than 10 years removed from the worst terrorist attack in history. In the days and months following September 11, terrorism insurance weighed so heavily on the mind of both policyholders and insurers that the federal government was forced to add backstop capacity to the market.

But Jeff Beauman, vice president of all-risk underwriting for FM Global, explains that 9/11 affected much more than just one line of coverage. It arguably had a bigger impact on the entire insurance industry than even the vast losses suggest. Contract certainty was something that few talked about -- and even fewer expected -- prior to the attack.

Most insurance buyers will still tell you that they want their policies quicker, but improvement has been made. Furthermore, the number of lines involved in the claims made every insurer rethink its risk appetite. The industry, like the world, will never be the same.

RM: How did September 11 change insurance?

Jeff Beauman: Probably the biggest change I've seen has been a much higher interest in contract certainty. If you remember, in the months following 9/11, the concern that so many clients had, particularly those affected by the event, was that the policies they had purchased had not yet been issued. The industry as a whole had not been very good at getting policies issued quickly. Since that time, the industry has been working very hard to do so.

RM: Are clients still very concerned about contract certainty? How far along has the industry come?

Beauman: It's always going to vary from one carrier to the next, but I do think that customers are much more appreciative of companies that are able to get policies issued on time-and [those] issuing policies where the language is very well understood by both parties. In terms of FM Global, we're now issuing about two-thirds of our master policies before the effective date and 90% within 30 days.

What that means is that our clients have the written documentation very quickly after they decide to purchase coverage with us. Generally, I think, whether you talk to policyholders or underwriters, you will find that this emphasis on contract certainty has probably been a good thing for us as an industry.

RM: How so?

Beauman: It caused us to raise our game. Beforehand, you had a process by which policies would be
issued "at some point," and people came to accept it as normal because every [insurer] was equally bad. There was no good way for a client to compare one carrier to the next.

Now, you do have an expectation on the part of clients because, after big disasters, they have seen the importance of having that policy language issued. It's something they now ask for. It gives the client a greater sense of confidence that they know what they have as part of their overall risk management strategy.

And the terrorism event of 9/11 helped to highlight the weakness the industry had in this area because there were so many claims being made without adequate policy documentation. There were disputes that received a lot of notoriety in the courts. So September 11 helped the industry improve.

**RM:** *Was this because dealing with terrorism claims was so new and the specific policy language was so unfamiliar to everyone? Hurricane Andrew had many claims of its own, but did the particulars of the contract language matter less in that instance because hurricane claims had been dealt with before?*

**Beauman:** Yes, that's right. Part of what allowed the industry to not focus on contract certainty [in the past] was that they had some personal, first-hand experience to fall back on. Terrorism was so new to everybody and the event itself was so unusual, that it did cause a wake up. When you don't have that personal experience to fall back on, you have to rely on policy language.

**RM:** *There must have been a lot of people after 9/11 who believed that they had coverage for terrorism but weren't sure what it consisted of.*

**Beauman:** Exactly. In terms of the World Trade Center, limits were purchased under the presumption that the two buildings would never be damaged in the same event. And further complicating things was that it was what is considered a "clash event" because there were a lot of lines all involved in the same event, something no one had anticipated.

You had hull coverage for aviation because you had three airplanes involved. You had a lot of automobile policies that were affected. You had life insurance, obviously. You had property insurance. You had fine arts coverage. You had a lot of types of cargo insurance. You just had a lot of smaller lines that are not typically involved in the same occurrence. That forced insurers to re-evaluate their risk appetite and how they go about establishing their maximum lines.

**RM:** *Has there ever been a "clash event" as broad as 9/11?*

**Beauman:** No -- and I would hope that none of us ever see an event like it again. It was the worst type of clash event because it was something that had never been imagined beforehand by anyone aside from the people who perpetrated it.

Take a typical event like Hurricane Irene that just happened. Underwriters understand that there is going to be wind damage. They understand there is going to be flood damage. They understand that there is going to be some damage to automobiles and buildings. They understand that there may be some people who lose their lives. Because they can visualize it, they can establish what their risk exposure might be, and they can operate their business comfortably depending on their risk appetite. 9/11 caused all underwriters to reconsider their risk appetite to make sure they weren't over-extended.

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