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Terrorist Attack Paralyzes Economy; Insurers Face Largest Catastrophe Ever

By Bill Roof
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The coordinated terrorist attacks in New York's lower Manhattan and Washington, D.C., last week targeted indisputable symbols of American prestige and military power: the World Trade Center and the Pentagon. The attacks delivered paralyzing blows to not only America's economic infrastructure, but also to that of the free world.

The impact on the global insurance industry is beyond grasp for the time being, but European insurers reacted negatively almost at once. An index that tracks European insurers fell more than 10 percent within an hour of the World Trade Center attack. American markets will likely face excruciating devastation.

Around £67 billion (\$98 billion) disappeared from the value of the FTSE 100 Index Tuesday as London reacted to the terrorist attacks. The FTSE suffered its biggest one-day percentage fall since 1987, closing down 287.7 points at 4746.0, as panicked dealers couldn't cash out fast enough. Frankfurt's DAX fell 8.49 percent to 4,274 and the CAC 40 in Paris fell 7.39 percent to 4,060.

Canada's Toronto Stock Exchange closed at 11 a.m. ET. The 300 index fell 4.03 percent to 7,049. Trading on the Mexican stock exchange was halted shortly after 10 a.m. ET. Mexico's benchmark IPC index closed down 5.55 percent at 5,531, according to reports from Hoovers.

Most costly catastrophe

The Insurance Information Institute says the attacks on the World Trade Center will be the most costly man-made catastrophe in U.S. history. Insured losses are likely to be in the billions of dollars, but it will be some time before an accurate assessment of the total impact can be made, cautions the III.

Property insurance policies generally cover damage from fire, explosion, smoke, or other property or liability loss that occurs. Insurance policies do exclude war, but this is generally defined as a declared war between nations. In light of increased global terrorism, some commercial insurance policies may have exclusions for damage caused by terrorist attacks. Aviation policies will also be impacted.

The 1993 World Trade Center bombing caused \$510 million in insured losses. The 1995 Oklahoma City bombing resulted in insured losses of \$125 million. The Los Angeles riots of 1992 resulted in insured losses of \$775 million, previously the most costly insured man-made disaster until today.

Any determination of insured losses will have to take into account the destruction of the World Trade Center towers; business and personal property of tenants and their employees; workers compensation for injured workers; claims for lost business income; and the cost of establishing alternative, temporary operations at off-site locations.

The U.S. government is self-insured, so physical loss to government buildings is not a commercial insurance issue. Insured commercial businesses within the Pentagon, for example, could incur insured losses.

The World Trade Center houses 350 tenants within the 16-acre complex, which includes approximately 12 million square feet of rentable office space, including the two collapsed 110-story office towers, a 47-story office building, two nine-story office buildings, an eight-story U.S. Customhouse and a 22-story Marriott hotel. According to promotional materials, the World Trade Center has a daily population of some 50,000 workers and more than 100,000 visitors and tourists.

Offices in the twin towers that were the World Trade Center were the backbone of many financial powerhouses such as Morgan Stanley Dean Witter, China International Trust, Yamatane Securities America and Farmers Union Control Exchange.

Rocked by losses

As the financial disaster becomes clear, the insurance industry will be rocked by losses. For instance, Silverstein Properties and Westfield America Inc. had signed a 99-year, \$3.2 billion lease with the Port Authority of New York and New Jersey on the now destroyed World Trade Center just last month.

"This is merely one example of the size of the insurance claims that will be filed in coming weeks. Staggering claims could be filed by the companies that were tenants of the World Trade Center. Meanwhile, liability and business interruption insurance for canceled airline flights will be paid out, and life insurance policies for the uncounted dead also must be paid," according to a report from Austin-based Stratfor.com.

The Federal Aviation Administration canceled all civilian flights less than an hour following the attacks and with an average daily capacity of some 55,000 flights, the daily loss to the airline industry ranks in the hundreds of millions of dollars.

On a more personal level, New York State insurance officials in Albany estimated that "dozens if not hundreds" of insurance organizations are either headquartered in or operate offices in the Wall Street area, including the National Association of Independent Insurers (NAII) which has three member companies headquartered in the World Trade Center: Scor Reinsurance, Partner Reinsurance, and General Security Insurance Company and Indemnity Co., a subsidiary of Scor U.S. Group. Other insurers include Kemper, Aon, RLI and Marsh & McLennan.

According to the NAII, the insurance ramifications of the disaster include: property and liability, workers' compensation, business interruption, and much more.