

Understanding terrorism insurance

Learn about coverage for losses due to terrorist acts

Disasters + Preparedness

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It's a sad fact of our world that some use violence as means to their political ends. With the possibility of terrorist acts close to home, it makes sense to understand whether your home, family and business are insured in the event of such an incident.

Terrorism coverage for individuals

Acts of terrorism may be covered under an individual's various insurance policies in the following ways:

- **Standard homeowners policies** don't specifically reference terrorism but, as your home insurance covers damage to property and personal possessions due to explosion, fire and smoke, acts of terrorism are generally covered.
- **Condominium or co-op owner policies** also provide coverage for damage to personal possessions resulting from terrorist acts. However, damage to the common areas of a building like the roof, basement, elevator, boiler and walkways would only be covered if the condo/co-op board has purchased commercial terrorism coverage.
- **Standard renters policies**, like homeowners insurance, will generally cover damage to personal possessions due to the explosion, fire or smoke of a terrorist attack. Terrorism insurance coverage for the apartment complex itself must be purchased by the property owner or landlord.
- **Auto insurance policies** will cover a car that is damaged or destroyed in a terrorist attack only if the policyholder has purchased optional comprehensive coverage—which covers damage to your car caused by disasters “other than collisions”.
- **Life insurance policies** do not contain terrorism exclusions; proceeds will be paid to the beneficiary as designated on the policy.
- Health and disability insurance policies may provide coverage for loss of life, injury or sickness to individuals in the event of a terrorist attack. Check your individual policy.

Terrorism coverage for businesses

Business losses may be covered for terrorism in a variety of ways, depending on the nature of the loss.

- **Terrorism coverage** – Prior to 9/11, standard commercial insurance policies included terrorism coverage as part of the package, effectively free of charge. Today, terrorism coverage is generally offered separately at a price that more adequately reflects the current risk.

Insurance losses attributable to terrorist acts under these commercial policies are insured by private insurers and reinsured or “backstopped” by the federal government pursuant to the Terrorism Risk and Insurance Act (TRIA).

Under TRIA, owners of commercial property, such as office buildings, factories, shopping malls and apartment buildings, must be offered the opportunity to purchase terrorism coverage.

For the terrorism coverage to be triggered under TRIA for commercial policies, a terrorist attack has to be declared a “certified act” by the Secretary of the Treasury. (Note that no such declaration is needed to trigger coverage under home and auto policies because there are no exclusions for terrorism.)

- **Business interruption insurance** – Property damage to commercial buildings from a terrorist attack also may include claims for business interruption. Business interruption insurance (sometimes referred to as business income coverage) covers financial losses that occur when a firm is forced to suspend business operations either due to direct damage to its premises or because civil authorities limit access to an area after the attack and those actions prevent entry to the business premises.

Though it depends on the individual policy, business interruption coverage typically begins after a waiting period or “time deductible” of two to three days and lasts for a period of two weeks to several months.

Business interruption losses associated with acts of civil authority (for example, the closure of certain area around the disaster) can only be triggered when there is physical loss or damage arising from a covered peril (such as explosion, fire, or smoke) within the area affected by the declaration. The covered loss or damage need not occur to the insured premises specifically, however reductions in business income *not* associated with a covered peril would not be covered. For example, loss of business due to customer fear of traveling to your business location, or closure to the area due to a heightened state of alert would not be covered, while official closure to your area due to a nearby explosion would be covered.

- **Workers compensation** – Workers comp is a compulsory line of insurance for all businesses that covers employees injured or killed on the job, including those injured or killed by acts of terrorism. Coverage for terrorist acts cannot be excluded from workers compensation policies in any state and it is also the only line of insurance that does not exclude coverage for acts of war.

What is not covered by terrorism insurance?

There are long-standing restrictions regarding war coverage and nuclear, biological, chemical and radiological (NBCR) events in both personal and commercial insurance policies.

- **Acts of war are almost never covered.** War risk exclusions reflect the realization that damage from acts of war are fundamentally uninsurable, and no formal declaration of war by Congress is required for the war risk exclusion to apply. The only insurance that covers injury or death from an act of war is workers compensation.
- **Nuclear, biological, chemical and radiological (NBCR) events may be excluded.** Again, these exclusions reflect that certain manmade catastrophic events are fundamentally uninsurable. Under the Terrorism Risk Insurance Act, if some NBCR exclusions are permitted by a state, an insurer in that state does not have to make available the excluded coverage.

Next steps link: Stay safe in a disaster—be prepared with an effective evacuation plan for you and your family.

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