

Damage Control

by Vishal Krishna

Limited coverage deters firms from taking terror insurance

A COSTLY AFFAIR: Unofficial estimates put the reconstruction cost of Taj Mahal Hotel at Rs 1,500 crore

THE TERROR STRIKES THIS YEAR — INCLUDING THE war on Mumbai — have rocked the very foundations of our polity. While India managed to reclaim its financial capital from terror, it is the task of rebuilding that will take continuous and unrelenting effort. General insurance companies already grappling with high reinsurance rates, thanks to the credit crisis, could have done without this added drain on their resources.

The terror pool in the country — that is a kitty to which all general insurance companies contribute — is worth just Rs 1,200 crore. To keep it positive, the Insurance Regulatory and Development Authority (IRDA) has capped the maximum disbursements for one terror attack, from this pool at Rs 700 crore. So, if not for this cap, general insurance companies would have had a tough time coping with the outgo. But the Rs 700 crore cover, many say is far from enough for massive attacks such as the siege on Mumbai on 26 November. A source who did not want to be identified says that to reconstruct the Taj

Mahal Hotel itself would cost more than Rs 1,500 crore because of its heritage value.

However, the general insurance industry disagrees. “The capital is sufficient for the claims and the pool is reinsured as well,” says Rajive Kumaraswami, head of reinsurance at ICICI Lombard. “The total claims paid from this pool in the country uptill now amounts to only Rs 50 crore.”

IRDA’s regulation also makes quantifying the damage due to terror attacks difficult. While terror claims can cover property damaged by terrorists, it does not include property destroyed during an encounter with the terrorists. “Assessing the loss at the Taj Mahal Hotel and the Trident would now become a Herculean task,” says Rahul Aggarwal of Optima Insurance Brokers in New Delhi.

So, does it make sense for companies to buy terrorism insurance? Many large corporates do insure their property against terror. “Corporate India is certainly sensitive to the need for it ever since it was launched in 2002,” says V. Ramakrishna, chairman of India Insure, a corporate insurance brokerage firm. Sources in the industry say Reliance Industries had insured its Jamnagar plant for more than Rs 200 crore. “All hotels and large corporates, for instance are insured against terrorist attacks,” he says.

But the small- and medium-sized companies, which many feel need it more, still shy away from buying this kind of insurance. This year during the Hyderabad and Ahmedabad bomb blasts, small businesses suffered the most. What perhaps these companies need is better advice on the risks that they have to cover during a terror attack. Industry experts say such soliciting could only take off once IRDA lets go a bit. After 1 January 2009, the IRDA plans to give partial freedom to companies on ‘wording’ of policies. This will allow the insured to have the choice to cover the risk, which he thinks is appropriate to his business.

So India Inc. can seriously take another look at covering terror risks beginning next year, even though it will mean higher business costs. Whether it is buying terrorism insurance, or spending more on security — including on technology-related solutions, such expenditures can only mean a further hit on corporate India’s already deflated bottom line. And lower earnings growth is not something our corporate chiefs would welcome right now. But whether they like it or not, waking up to the merits of terror insurance has become indispensable given that authorities have time and again displayed their helplessness in preventing these attacks.



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