

DEPLETING FUNDS

Terror insurance pool may dry up

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MUMBAI

India's latest terrorist attacks may decimate a pool of funds set up by the country's insurers to cover such claims, potentially leaving victims of any new assault financially exposed.

Payments to the three luxury hotels hit in the 26 November attacks may erase about half of the Rs1,200 crore that insurers set aside under regulatory requirements, said Radhakrishna Chamarty, director of **India Insure Risk Management and Insurance Broking Services Pvt. Ltd** in Mumbai.

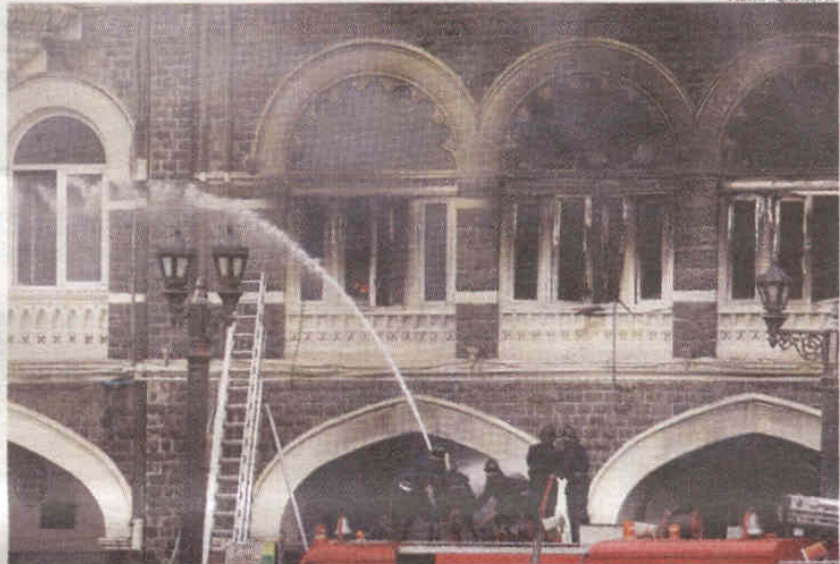
Terrorists have killed at least 500 people this year in India with attacks on markets, mosques, bus and railway stations, making it the worst year since 1993.

The escalating war with extremists will prompt more companies to seek terror insurance coverage, driving fees higher and forcing insurers to step up payments to the pool, industry executives said.

There may not be enough left for tomorrow, Chamarty said in an interview. When you have a situation where the pool is in danger of getting wiped out, there will be a change in the approach.

Last month's carnage may prove especially costly because of the value of paintings and sculptures at the 105-year-old Taj Mahal Palace and Tower hotel, where terrorists fought room-to-room battles with special forces. The hotel boasts valuables such as paintings by the 19th century artist Raja Ravi Varma and M.F. Husain.

The terrorists also destroyed



ALTAF QADRI/AP

Restoration cost: A 29 November picture of the Taj Mahal hotel. The 105-year-old hotel boasts valuables such as paintings by M.F. Husain.

parts of **EIH Ltd's** Oberoi and Trident hotels. The attacks, which ended on 29 November, left at least 183 people dead.

The incident probably will increase the cost of terror-related insurance as more companies opt for coverage. Indian companies currently pay about 22 paise for every Rs1,000 of coverage, according to K.C. Mishra, director at the National Insurance Academy in Pune.

This is the first time that the terror insurance pool will decrease substantially, said Raj Bora, head of corporate planning at Gurgaon-based **Iffco Tokio General Insurance Co. Ltd**. In all likelihood, there will be an increase in premiums.

J. Hari Narayan, chairman of the Insurance Regulatory and Development Authority in Hyderabad, which governs the terror pool, declined to say how much reserves it holds, or how much has been drawn by insurers this year.

It's not impossible but improbable that insurance funds covering terrorist attacks will be wiped out, Mishra said. The

size of the pool needs to be increased, he added.

Indian rules cap insurance claims from a single site at Rs750 crore to prevent one demand from wiping out the pool. The current structure is the result of global reinsurers shunning terror cover after the 9/11 attacks in the US.

We have to ensure that the industry has adequate reserves and builds them up, said Sandeep Bakshi, chief executive of Mumbai-based **ICICI Lombard General Insurance Co. Ltd**. It is time to recalibrate premiums that have been falling in the last few years, he said.

Indian insurers sell coverage for terror attacks as an added provision to general insurance, which shields clients from events such as fire, theft and floods. Few companies have opted for the provision because terrorist strikes in recent years have mostly struck public places such as railway stations, crowded markets and Parliament. **BLOOMBERG**

Pratik Parija in New Delhi contributed to this story.