

Loss/Risk Management Notes: Terrorism Models Can Help Insurers

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After marking the solemn one-year anniversary of Sept. 11, insurers can now use two new terrorism insurance models to analyze the financial impact of terrorist acts. Both Eqecat and AIR Worldwide have unveiled terror estimation models.

The occurrence of attacks, the targets and the hierarchy assigned to the different modes of attack are quantified by independent experts and experts within ABS Consulting.

"Terrorism is a unique exposure and cannot be modeled using the same techniques currently used to model insurers' earthquake and hurricane exposure," said Dr. Mahmoud Khater, Eqecat's chief technology officer. The Eqecat model features a probabilistic set with more than 10 million events and hundreds of thousands of high-probability terrorism "target" sites. The model's property-damage functions are based on historical and test data, and engineering analysis with workers' compensation vulnerability functions derived from extensive claims data.

AIR Worldwide Corp.'s Terrorism Loss Estimation Model estimates the financial impact of insured property and workers' compensation losses from potential future terrorist attacks in the United States. Karen Clark, president and chief executive officer of AIR, says the new model helps insurers and reinsurers quantify their risks, assess coverage and exclusions and estimate the financial impact of the attacks. The model analyzes various threats posed by domestic extremists, formal international and state-sponsored terrorist organizations. The model compiled a database representing a full range of topics including landmark properties such as bridges and "trophy" targets. The model can also perform analyses to estimate losses across multiple lines of business.

(Loss/Risk Management Notes is compiled by Senior Associate Editor Lynna Goch.)

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