

# Iraq violence adds risk

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LONDON—Personal accident coverage for civilians working in Iraq is growing more expensive and restrictive following a surge in violence over the past several weeks.

Insurers are becoming increasingly cautious following such incidents as the killing of four U.S. security contractors in the city of Fallujah late last month and calls for violence against U.S. forces by some Iraqi religious leaders, brokers and underwriters report.

But despite the increased violence, personal accident insurance coverage for the reported foreign 15,000 civilians working in Iraq is still available, they say.

Stuart Bowen, the Coalition Provisional Authority's inspector-general, acknowledged security and insurance costs as an issue in his March 30 report to Congress.

"With security cost estimates ranging from 10% to 15% of the current reconstruction budget, and with continued and significant threats to human life being experienced...throughout Iraq, the inability to accurately predict the costs of security—including insurance—raises questions about the need for more funding," the report said.

The coverage purchased by companies tendering for contracts in Iraq from the U.S. government depends, to an extent, on where they are based.

Companies based in the United States are required under the Defense Base Act to obtain workers compensation insurance for employees working overseas on any government contract.

The legislation requires companies to provide injury and death benefits of up to 200% of the national average weekly wage, or 200% of the employee's full average weekly wage, whichever is smaller.

The U.S. government covers injury and death caused by acts of war or terrorism.

Defense Base Act coverage is currently priced at between 18% and 25% of annual payroll, according to Peter Schulteis, executive vp at Cincinnati-based program manager Global Underwriters Inc. But many companies are purchasing additional individual and group accidental death and dismemberment coverage for employees to supplement the Defense Base Act coverage.

According to Mr. Schulteis, the price of this additional coverage has increased over the past six months, from between 15 cents and 25 cents per \$1,000 of payroll per person per day to between 20 cents and 35 cents per day.

Gordon Knight, president of **AIG World Source**, in New York said that AIG is questioning whether rates are adequate. "To pretend it is a science is a false pretension; we are figuring out as we go. We are **getting 150 claims a month and have had tens of millions dollars in losses at AIG**," Mr. Knight said.

Paul Bassett, chairman of London-based Aon Ltd.'s special-risks counterterrorism team, said **rates are increasing, capacity is difficult to find and the security situation is clearly worsening, but coverage is still available.**

The **price of coverage changes daily**, Mr. Bassett said. "If there is only a small amount of profit in the (Iraq rebuilding) contracts, it could easily be eroded by insurance and security costs," he added.

David Lush, manager of accident and health underwriting in Europe for the London-based arm of Brussels, Belgium-based ACE Insurance SANV, said prices for AD&D coverage in Iraq are between 30% and 40% higher than they were six months ago, with 25% to 30% of this increase coming in the past month.

But **David Bruce, divisional head of Lloyd's of London syndicate 33**, which is owned by Hiscox P.L.C., said in some cases rates are holding steady but coverage terms are changing.

For example, deductibles are increasing and limits are being imposed or reduced.

Rates vary from 1.5% a week to between 6% and 10% a year of the sum insured, Mr. Bruce estimated.

**"We are still offering insurance in a very hazardous zone,"** he said.

Tony Ratliff, a partner with JLT Risk Solutions Ltd. in London, said **rates for personal accident coverage are already a significant cost for companies operating in Iraq and companies may have problems meeting the extra costs if rates are increased further.**

One of the problems is that many companies are still bidding for contracts for Iraq, according to David Partner a broker at London-based Miller Insurance Services Ltd. Once contracts are awarded, there will be a critical mass of people, and it will be easier to rate the business.

He estimated rates currently stand at about 8%, on an annual basis.