

# Client Alert

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## Real Estate and Hospitality Industries: Navigating Evolving Terrorism Risks

Today's increasingly connected world has revolutionized many industries, raised productivity, and improved the standard of living for many. However, the more fluid communication channels have also provided terrorist groups with a global platform to extract maximum exposure and notoriety from their attacks on international targets. These groups are also leveraging the spread of social media for recruitment, faster mobilization, and more radicalization.

Beyond terrorist organizations, there is also an elevated risk of political violence and assaults by active assailants. Changes in the political landscape have polarized opinions and attitudes, leading to a greater prevalence of populism, hate-rhetoric, and extremism. Widening income inequality may also exacerbate the risk of violence.

Recent atrocities in Sri Lanka and New Zealand spotlight the terrible impact wrought by terrorist and other violent acts. These threats, and the risks they pose, are evolving to become less predictable but more tangible.

Such attacks are rare, but they are sudden, often occurring without warning. Beyond the emotional and physical damage, they can interrupt business operations, leading to significant loss of revenue and plummeting confidence in a brand. Real estate and hospitality firms cannot eliminate these threats but they can take steps to reduce risks, contain the damage caused to people and property, and accelerate recovery.



# Risk Mitigation Strategies

Proactive risk control should be implemented to protect the interests of clients, guests, shareholders, partners, and employees. This is best achieved through a formal Enterprise Risk Management process embedded into an organization. Its job is to identify hazards and manage the associated risks. For this process, it is essential that risks are understood and prioritized and appropriate resources are effectively allocated.

Within this approach, a number of steps are highly recommended, beginning with an analysis of the current situation.

## 1. Security Vulnerability Assessment

- **Threat Assessment:** A desktop assessment of the geographical context, potential threats to critical assets, and historical attacks on similar industries.
- **Vulnerability Assessment:** A complete understanding of the premises, nature of operations, details of local security threats, and existing security measures. This is determined through staff interviews, site visits, and reviewing relevant documentation.
- **Risk Assessment:** Identifying, measuring, and prioritizing risks according to likelihood and consequence.
- **Estimated Maximum Loss (EML) Study:** State-of-the-art modeling software is used to simulate credible attack scenarios. An EML value is calculated for these scenarios.
- **Risk Mitigation:** Implementing additional or improved security control measures to reduce risks to a tolerable level according to each risk profile.

## 2. Business Continuity Management

All businesses are exposed to threats and should, therefore, develop emergency responses and business recovery plans that ensure they can continue to provide safety to guests, clients, and employees while maintaining effective communication at all stages of a crisis. This is achieved through a Business Continuity Management plan.

- **Business Impact Analysis:** This involves:
  - Establishing recovery priorities.
  - Detailing time objectives.
  - Supporting technological requirements, internal/external dependencies, and minimum resource requirements.

Businesses should carry out a gap analysis of these requirements to compare with their current abilities.

- **Strategy Development:** Effective strategies are devised and documented to ensure overall preparedness.
- **Plan Exercise and Maintenance:** Workshops and simulations test the robustness of plans and identify weaknesses, providing the knowledge for appropriate updates and revisions. Ensure the plan's effectiveness persists by following a maintenance roadmap.

## 3. Risk Finance

The risk appetite of an organization must be ascertained to define, quantify and understand risk tolerance. Effective risk finance will then couple risk mitigation initiatives with the most appropriate insurance program, tailored to each firm, according to its risk profile.

Traditional terrorism insurance is triggered by damage to property and requires the motive of the attack to be ideological, political, or religious in nature. However, as active assailant attacks become more prevalent and their nature evolves, many cases of such violent acts may not be covered by existing policies. It is, therefore, highly advisable that companies review their existing insurance to ensure that active assailant events are covered, either by extension or by a standalone policy.

When considering terrorism insurance coverage, property damage and business interruption are the key drivers. Loss of attraction cover should also be obtained as a standard extension. Terrorism liability is not typically sought as there is often a perception that a property owner is not legally liable towards the victim. However, we encourage careful consideration of a terrorism liability coverage, either as a standalone policy or as an extension under your terrorism property insurance, as liability can become an issue when the effectiveness of an organization's security measures are questioned.

## Assistance from Marsh

**Loss Mitigation Advice:** Our first contact with clients is in real time in the immediate aftermath of a terrorism event for advice on mitigating loss.

**Claims:** Our top priority is to ensure our clients obtain the best possible claims outcome under their insurance policies. Our clients have much to benefit from engaging our Marsh Claims Solutions team as they provide our clients with access to experts specializing in advocacy, business interruption, and property claims preparation. This enables us, brokers, to extend significantly beyond our traditional scope of claims support while addressing the imbalance between insurers (who draw on their own experts for almost all claims) and our clients.

**Placement:** Insurers will insist on accurate data to underwrite risks. The essential criteria for assessing risks are:

- The exact address and location of each of the insured's premises.
- Updated values.
- The details on building structures and layout.
- The security measures put in place.

In addition, having a disaster recovery plan is important to convince insurers that the insured has the necessary steps in place to deal with a crisis.

## In Conclusion

As recent and past terrorist attacks have demonstrated, insureds can be badly affected by what happens in their immediate surroundings, cities, or countries. Minor or complete lack of physical damage can still result in large losses of revenue, hence non damaged business interruption policies can be an important cover for your business. Certain risks, such as loss of attraction, are not normally covered by traditional insurance, but it can be supplemented through parametric solutions.

As threats evolve and businesses are faced with a wide variety of risk transference arrangements, Marsh is committed to ensuring our client's risks are presented as thoroughly as possible to achieve the best terms and conditions available.

For more information please contact your Marsh representative or visit our website at [www.marsh.com](http://www.marsh.com)

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