

Boston bombings show need for terrorism insurance

Jayne O'Donnell, USA TODAY *April 23, 2013*

Catherine Mesner, who lives in the South End of Boston needed clothes last week for a yoga retreat. She had originally planned to shop at nearby Lord & Taylor and Lululemon but ended up elsewhere because much of the area was still closed due to the Boston Marathon bombings.

She said she didn't know what was open and wasn't going to "chance walking over there."

Other shoppers and tourists did the same, abandoning many stores and restaurants on Boylston Street, where the bombings occurred. That includes the Shops at Prudential Center, a full-scale mall that has a Boylston Street entrance.

In the days since last Monday's bombings, sales have slowed to a trickle at some stores and businesses in the area around the bombings. And that's money some won't likely recoup.

Legal Sea Foods was closed for more than three days. And Alex Jalali, a salesman at Ross & Simons jeweler in the Prudential Center, said that with the street closed "people aren't going to just come in and wander around."

"There were a lot of tourists in town, and they spend a lot more than regular people," says Jim Bieri, a principal in retail real estate firm Stokas & Bieri. "If nobody's moving around, those sales never find their way into the retailers' cash registers."

But there is optimism at the Mizu hair salon inside the Mandarin Oriental hotel. Even though four hairdressers didn't make it in during the three days the salon was open last week, there weren't many customers, either.

Still, Jessica Barsamian, director of operations for Mizu and the 24 other salons owned by the Belgrade Group, says "people are pretty loyal to their stylist" and probably didn't take their business elsewhere, unless they were attending an event. "Hopefully it's a short-term bump and we'll recover," she says.

City officials are waiting for the FBI to approve the reopening of more of Boylston Street, in the heart of Boston, possibly Tuesday. Don Schmidt, CEO of the risk management firm Preparedness in Sharon, Mass., says after events such as this, gas lines and electrical wiring must be checked for damage, and the area has to be monitored for other environmental hazards that might have been released by the bombs.

Businesses that have terrorism insurance may qualify for business-interruption coverage under their policies. Even stores and restaurants that did open might be eligible for insurance reimbursements if they can show they had considerably less business than was to be expected in the hours and days after the marathon, says Erwann Michel-Kerjan, a managing director of the Wharton Risk Center, which studies catastrophes and financing.

Those without terrorism insurance are out of luck.

Doing business in the post-9/11 world can carry a steep price. For example, terrorism insurance is part of the lease expenses in the new Queens Center mall in Elmhurst, N.Y., and adds \$1.25 a square foot to the cost, said Bieri.

As many as 70% of businesses, especially in urban areas, have terrorism insurance, says Howard Kunreuther, co-author of *Insurance and Behavioral Economics* and co-director of the Wharton center.

After 9/11, which at about \$32 billion was the largest insured loss in world history, U.S. insurers refused to cover acts of terrorism after they paid for the Sept. 11, 2001, terrorism attack at the World Trade Center in New York, unless the federal government agreed to help pay claims from such catastrophic acts. That remains, at \$32 billion, the largest insured loss in world history. The 1995 Oklahoma City bombing, by comparison, resulted in \$652 million in losses to individuals, businesses and governments, estimates Adjusters International.

The Terrorism Risk Insurance Act, enacted after 9/11, makes the federal government an insurer of last resort. The measure comes up for reauthorization in 2014, and Kunreuther expects the Boston bombings will influence the discussions.

The indirect national economic costs of terrorist events such as those in Boston can be three to seven times greater than the direct costs, says Isaac Maya, director of research at the National Center for Risk and Economic Analysis of Terrorism Events. These indirect costs would include the businesses affected by, say, an attack on a port or damage to a factory that supplies car parts.

Behavioral costs, which can be 10 times higher than original estimates of the economic costs, would include the higher wages necessary to entice workers back to an area, lowered real estate values and "whether people would return to that area even if people give the all-clear."

In Boston, "because these two guys were caught so quickly and everybody responded so positively, I don't think there will be any decrease in people going to malls," says William Burns, research scientist at the risk-perception think tank Decision Research, in Eugene, Ore. "But that's all predicated on there being no more of these incidences in the near future.

"If a bomb goes off at another marathon or public outing, that's another matter," says Burns.

Still, the cost of terrorism in the United States is difficult to determine, as Michel-Kerjan notes, "we should celebrate that there's not much data on terrorism."

And there could be an upside for some retailers. After all, Americans often respond to threats with their pocketbooks.

The Best of Boston memorabilia shop in Prudential Center saw brisk business from tourists stuck in their hotels "who wanted to show their support," says manager Kim Cortez.

Bieri says that may be the long-term effect of the bombings on Boston retailers and other businesses. He notes the new World Trade Center in Manhattan is adding about 50% more retail, much of it high-end.

Adds Michel-Kerjan: "Some people maybe don't want to select a restaurant where people were killed," he says. "Others may say, 'Let's all go there because we don't want these two guys to win here on the economic side.'"

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