

War on Iraq: A Risk Management Response



President Bush's deadline for Saddam Hussein to go into exile or face war has expired. The attack on Iraq has begun. This Update examines the effect war in the Middle East could have on UK businesses, and provides practical advice for protecting property and staff, and improving resilience against possible proxy terrorist attacks against the UK.

Assessing the risk

UK

Organisations are advised to review their existing risk registers/profiles to ensure they adequately address exposures arising directly or indirectly from war in the Middle East. They should undertake risk assessments to determine their vulnerability to terrorism and take steps to mitigate the exposure. Specific risks relating to human capital, cyber terrorism and supply chain exposures (see overleaf) should be identified, measured and managed. Organisations should survey the surrounding area and proximity of their main premises/sites to identify neighbouring facilities - e.g. Government buildings, industrial facilities and transportation routes - which could be potential terrorist targets. Facilities with hazardous storage, or operations that have been identified as part of the critical national infrastructure (such as healthcare institutions) warrant a high level of preparedness.

Overseas

In its current country risk assessments, Control Risks Group concludes that it is credible but unlikely that Iraq could respond to a military assault by firing missiles at neighbouring countries. Bahrain, Jordan, Kuwait, Oman, Qatar, Turkey and UAE have signalled that they would conditionally allow the US access to their facilities and airspace in the war. Control Risks continues to monitor the situation but believes that businesses can continue to operate in much of the Middle East during military activity and that there will be no need for general evacuation from the region. Nevertheless, sensible and effective assessments and preparatory actions should be completed, and importantly any organisation with operations in the Middle East should clarify and communicate their intentions regarding operations and levels of support to staff, stakeholders and the media. Local managers should be assisted with the production of contingency plans.



Supply Chain

Organisations should conduct a thorough assessment of their supply chains, both upstream and downstream, to determine whether political instability and war could deliver supplier shortfalls and/or reduced forecasted demand. If possible they should measure the financial impacts of disruptions in the supply chain, and have alternative supplier policies and procedures in place to reduce this volatility. The events of 9/11 demonstrated that the whole national economy can experience problems as a result of increased border restrictions, which slows down the import and export of goods/materials.

Travelling overseas

Organisations should assess the changing risk from staff travelling overseas, and ensure that, if necessary, their policies on staff travel are amended to account for this change. Policies should be reissued and clearly communicated on global travel, travel in affected countries and details of alternative working sites in the event of an interruption. Appropriate HR assistance should be sought to implement policy and provide support to business continuity plans.

Business continuity management

Organisations are advised to revisit all business continuity and crisis management plans, ensuring that they are up to date, appropriate and understood fully by those stakeholders expected to play a role in the recovery of the business following an interruption. Appropriate plan tests and reviews should be conducted, preferably in a live exercise environment, with training given to senior management. Specific business continuity advice would include:

- Establish early-warning systems to quickly learn of potential threats and provide a means of warning employees to take protective actions in the event of an emergency, including a review of evacuation and relocation plans.
- Ensure that all members of the emergency response, business recovery and crisis management teams have access to the latest copies of plans and can be contacted 24 hours a day, seven days a week.
- Exercise crisis management teams using scenario testing, in order to refresh procedures, crisis communications - including media arrangements - and the competencies of the team.
- Co-ordinate incident response plans with local emergency planning officers, emergency services - such as casualty bureaux and the police - and local public authorities.
- Verify that emergency operations centres and business recovery sites are properly equipped and ready for occupancy, and that clear business recovery plans are in place to equip the sites with designated staff, making alternative working arrangements for non-essential staff.

- Review physical and operational security to ensure it is commensurate with the needs of the facility, considering:
 - Inspection of exterior lighting, fences, door and window locks, surveillance equipment and intrusion alarms to verify they are in good condition.
 - Customisation of plans according to the unique characteristics of the building or site, population, nature of operations and availability and capability of internal and external resources.
 - Response to terrorist bomb or chemical/biological/radiological/nuclear incidents if the risk assessment at the site deems it necessary.

Insurance implications

It is very unlikely that any UK life or pension policies will have a war exclusion, which should mean that any claims would be met in full, regardless of events in the Middle East, or indeed the UK. Most UK non-life policies contain a 'war risks exclusion' clause, which will typically be worded in the following way:

'This policy does not cover...any loss or damage to property, legal liability, expense, consequential loss, bodily injury or sickness directly or indirectly caused by or arising from or contributed to by:

war, invasion, act of foreign enemy, hostilities (whether war is declared or not), civil war, rebellion, revolution, insurrection or military or usurped power'.

Source: Association of British Insurers

However, not all classes of insurance will have a 'war' exclusion in the policy conditions. For example, cargo policies will have a specific extension and rating structure for war risks. These rates are periodically updated for transits to areas considered as currently high-risk and very occasionally, insurers will issue exclusion notices for some territories.

It is generally illegal for UK Employers' Liability policies to contain exclusions but the legal requirement to insure only applies to injuries that happen within the United Kingdom and territorial waters. Most policies will extend cover to apply whilst employees are temporarily outside of these territories, but any temporary visits to a known war zone area may need to be discussed with your insurer or broker.

Personal Accident or Travel policies may contain limitations regarding war risks and, any doubts as to the cover, please refer to your insurance adviser.

As reported in earlier Marsh Advisers, terrorism coverage for property risks, whether UK only or part of a multi-national insurance programme, must now be arranged on a more focused basis through a combination of local insurance or

reinsurance funds or pools. The UK example is Pool Re. Pool Re Terrorism cover is available for damage to commercial property and business interruption in England, Scotland and Wales, and is offered to an original insured when it attaches to the relevant general cover. Pool Re continues to exclude war and a cyber-terrorism exclusion will apply to the 'all-risks' terrorism cover, covering hacking and virus damage and denial of service attacks.

Additional Information

For further information or advice on any of the issues raised here, please contact your Client Executive. Back copies of Advisers detailing the UK position on terrorism insurance are also available from Marsh.

The Home Office site offers information on the threat of terrorism, support from Government and useful references:
<http://www.homeoffice.gov.uk/terrorism/>

The Civil Contingencies Secretariat offers Emergency Planning guidance: <http://www.ukresilience.info/>

The 'London Prepared' site, includes information on infrastructure resilience measures being taken in the Capital:
<http://www.londonprepared.gov.uk/>

Control Risks Group offers comprehensive country-risk assessments: <http://www.crg-online.com>.



This document is intended to highlight issues on a general basis relating to insurance and risk management and does not contain legal advice. In view of its purpose, the publication cannot have regard to any individual circumstances nor can Marsh accept responsibility for the completeness and accuracy of its content for particular application. If you have legal queries regarding issues raised in the Adviser, you should contact your usual legal advisers.

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