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Iraq insurance costs escalate

As violence explodes, the price of keeping workers in war-torn country surges
By Adam Geller, Associated Press

NEW YORK -- When Vulcan AMPS LLC dispatched a team of workers to Iraq last fall, managers knew it would be risky. What they didn't count on was just how much more expensive it would become to insure employees and the company against those dangers.

"The cost is certainly driven up based on the risk," said Michael Stewart, chief administrative officer for the mobile power plant maker, whose insurance bill in Iraq has jumped from \$5,600 a month per worker to about \$14,500. The costs have been compounded by an assignment that has stretched long past initial expectations.

"Did we anticipate that? No, we really didn't," Stewart said.

Other firms with contracts in Iraq are coming to a similar realization, after watching the cost of insuring workers assigned to the country jump in recent months.

Federal law requires government contractors to take out some death, disability and medical insure for workers assigned overseas, and reimburses insurers if a worker is killed or injured.

But some contractors are footing much larger than expected bills. Many have taken out more insurance than required by law as a way to attract and reassure workers, and then were forced to keep workers in the country months longer than planned because of circumstances including violence and sabotage.

Insurers, who expected casualties among civilian workers to have subsided long ago, have raised premiums in response to the killings of contract workers in Iraq. Insurance brokers say the catalyst was the March killing of four employees of security firm Blackwater USA. The killings captured headlines when a jubilant crowd in the city of Fallujah dragged the workers' bodies through the streets and hung them from a bridge.

The dangers were confirmed again last week when three General Electric employees and the two security guards assigned to protect them were among 13 people killed in a car bombing in Baghdad.

"The market reacts to what's going on," said Peter Schulteis, executive vice president of Global Underwriters, Inc. in Cincinnati, which matches employers with coverage for workers in Iraq.

"The company line would be that it's (premiums) not supposed to go bounce up and down like that, but I think the underwriters are saying, yeah, we're going to have to do something here."

Schulteis and other brokers say the costs of insuring workers in Iraq vary widely, depending on the part of the country they are in, what they are doing there, whether or not they are clustered together with other workers and other factors.

As a result, the cost for insuring some workers in low-risk roles has seen little change.

"It really depends on what folks are doing. We have clients who have people over there who are just really manning copying centers," said Christopher Moody, vice president of Moody Insurance Worldwide, a broker.

But other employers are paying much more than before, and are having an increasingly difficult time finding insurers willing to take the risk, said Joel Greengarten, senior vice president of Frenkel & Co., a New York broker.

"Now some insurers have outright restrictions on providing it," he said. "Insurers are not going to continue to provide something when their return is a loser."

That has driven up costs for some contract firms already and could mean higher bills for others later, once time runs out on initial coverage, brokers said.

Greengarten said coverage required under the Defense Base Act until recently cost employers 10 percent to 15 percent of their payroll, but is heading toward 25 percent to 30 percent.

Some employers, seeking to attract and reassure workers, have taken out additional insurance, whose cost has also risen.

"It's probably the most dangerous place in the world right now, and if you want your employee to go there, the compensation package must be commensurate with the risk," said Harold Skipper, professor of risk management and insurance at Georgia State University in Atlanta.

But that additional coverage has also gotten pricier, with accidental death and dismemberment policies for workers in Iraq roughly doubling in recent months, Schulteis said.

The costs are difficult to ignore, particularly for smaller firms like Vulcan, an Elizabethtown, N.C., company working as a subcontractor in Iraq to provide a temporary power supply.

The cost has been greatly magnified by complications in moving equipment in

and around the country and a host of other problems. Vulcan expected to have its workers in the country for about 20 days, ending in early January. Instead, it has kept 8 to 9 workers there, and expects that number to rise.

Other contractors signed longer-term insurance contracts that will hold the line on overall costs for the time being, but could effect their business in other ways.

ATSG Aeronautics and Resource Corp., a Jacksonville, Fla. firm that works in aircraft diagnostics and maintenance for the military, paid about \$300,000 last September to insure its workers for a full year in Iraq.

That covered 20 workers who were in the Iraqi city of Mosul through February, installing a diagnostics system used for Army H-60 Black Hawk helicopters, said Steve Quin, the company's CEO.

ATGS plans to send more workers back in under the same policy later this year. But the increased risk may mean it will be able to dispatch fewer of them under the same policy, he said.

The dangers of working in Iraq are a conundrum for insurers, who traditionally gauge risk and set prices by examining similar past situations. But Iraq, a volatile war zone loaded with civilian contract workers, has few historic parallels, Georgia State's Skipper said.

"I'm not sure I can think of any place where you've had this confluence, this perfect storm of events for civilians," he said.

"Nobody fully understand the underlying risk here."

That leads insurers to set prices higher to cover unforeseen dangers, he said.

The risks of doing business in Iraq, and the difficulty of finding insurance to mitigate them, has been a revelation for firms like ATSG, which had not previously worked in a war zone.

"We've sent people to Sweden and nice luxury places, but we've never told a guy, 'Here's your risk factor and you may be shot at,'" Quin said. "We tried to assemble a team of people and found our workman's comp just wasn't going to cut it."