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THE FINANCIAL CONSEQUENCES OF THE IRA CAMPAIGN IN BRITAIN

1. Saturday's IRA bomb in Bishopsgate in the City of London, in which one man died and 51 people were injured, was, according to initial accounts, the largest bomb ever assembled by the IRA in Britain. Following the negative fallout (from the IRA viewpoint) of the Warrington bombing, it marked a return to the strategy of hitting major commercial targets. Coming almost exactly one year after the attack on the Baltic Exchange, it was clearly intended as a reminder to the British Government of the cost of its Northern Ireland policy, both in view of the sizeable Exchequer liability and the perceived threat to the City of London's position as a leading financial centre.
2. The bombing campaign in Britain began in February 1972 when an Official IRA car bomb exploded outside the Parachute Brigade officers' mess in Aldershot, killing seven people. The Provisionals began their campaign in March 1973, when the Old Bailey bombs killed one person and injured 244. The bombings have continued on and off since that time, with differing levels of intensity. The current campaign began in 1988 and is viewed as the most intense since the 1970's. One hundred and twenty people have been killed in Britain since 1972 in violence (primarily bombings) related to the security situation in Northern Ireland, but the current campaign has in the past year caused additional concern in respect of the commercial damage occasioned by these bombings.
3. This concern led to a situation last year where the insurance industry threatened to withdraw cover in respect of claims arising from damage caused by terrorist bombs, a move which would have caused considerable embarrassment for the British Government and a propaganda windfall for the IRA.
4. In the past twelve months the financial toll taken by bombings in Britain has been considerable. The IRA itself has claimed that its bombs caused £1.2 billion worth of damage in 1992. Recent reports, including revised estimates of the cost of the Baltic Exchange attack, suggest that this is a significant over-estimate. Nevertheless it is clear that the toll of damage over the past year has caused major difficulties for the insurance industry. There have been four attacks of note :
  - (i) In April 1992 a van containing 100 lbs of explosives was detonated outside the Baltic Exchange in the City of London, killing 3 people, injuring more than 90 and causing damage originally estimated at £800m. However latest estimates suggest a figure closer to £350 m. (Concern that inflated assessments encourage the IRA to target the City may underlie reports downplaying initial estimates of Bishopsgate damage.)

- (ii) In May six firebombs detonated in the Metro Centre in Gateshead caused minor damage but the insurance industry had to cover the resulting £1.5 m loss of earnings.
- (iii) In December two bombs exploded in the centre of Manchester causing damage estimated at £13 m as well as injuring more than 60 people.
- (iv) In February of this year three devices exploded at the Warrington gas works destroying two gasometers and 2m. cubic feet of gas.
5. In all there were 46 explosions in Britain attributable to Republican paramilitaries in 1992. A number of others, including 3 bombs containing in excess of one tonne of explosives each, were found and defused. The damage caused would have been greatly increased if the bomb planted at the Canary Wharf development in London last November had detonated.
6. In the aftermath of the IRA attacks during 1992 the insurance industry sought to persuade the British Government to accept responsibility for all claims, as is the position in Northern Ireland. This followed a decision by major re-insurers to refuse to cover terrorist related risks. The insurance companies announced that unless an arrangement was agreed with the Government, the companies would introduce in all their policies a "terrorism exclusion clause", allowing them to avoid liability in the event of damage caused by terrorist attacks. For its part, the British Government made clear that it would not favour the introduction of a compensation scheme on Northern Ireland lines, where the Government meets all claims in excess of £220. (Since 1969 this has cost the British Government £680m).
7. Following contacts between the British Government and the insurance industry in December 1992, it was announced that the insurance industry would establish a new mutual insurance company, Pool Re. Its function would be to manage a fund from which claims arising from terrorist attacks would be met. It would be financed by premiums on new insurance policies drawn up solely to cover damage caused by such incidents. The insurance industry undertook to cover all such claims up to the extent of the total amount of money in the pool plus an additional ten per cent. When the total claims for any one year exceeded 110% of the amount in the pool, the Government would meet the balance.
8. Although the scheme has not yet been approved by Parliament, the Corporation of London had received earlier in the year an undertaking from the Government that the scheme could be regarded as operational, and the Department of Trade and Industry confirmed over the weekend that this was the position.

9. It was expected that the Pool Re fund would have an approximate annual income of £ 400 m. In fact, according to reports, it appears that no more than £200 m. will be collected by the pool this year. This obviously results in increased demands on the British Exchequer. In addition concern has been expressed that some companies whose premises were damaged on Saturday, and whose standard policies had expired at the end of last year, had not taken out extra cover and would therefore be left to meet any costs arising from their own resources.
10. While initial estimates of the cost of the damage caused by the Bishopsgate bomb were put in the region of £1 bn, insurance industry representatives now suggest a figure closer to £400 m. Even if this lower figure is confirmed this is clearly greater than the funds available under the new arrangements : the balance will in effect fall to be met by the British Government. Moreover, all damage caused by terrorist bombings until the end of December will now have to be borne by the British Government. It must be a matter for concern that this itself will be viewed as an incentive for further paramilitary attacks.

Anglo-Irish Division,  
26 April 1993.

cc

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