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THE FINANCIAL CONSEQUENCES OF THE IRA CAMPAIGN IN BRITAIN

Saturday's IRA bomb in Bishopsgate in the City of London, in which one man died and 51 people were injured, has also attracted considerable attention to the purely financial implications of such bombings. The bomb caused substantial damage to property (most notably to London's second tallest building, the 600 feet high NatWest Tower, and to the Hong Kong & Shanghai Bank building) much of which has yet to be assessed. Loss of earnings due to damaged office space, & c., must be considered also.

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.

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 paramilitary bombs, and the spectre of a major IRA propaganda coup (of firms being put out of business because of the destruction of their premises) loomed accordingly.

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, which, while undoubtedly exaggerated, gives some idea of the extent of damage caused. In particular, prior to Saturday's bomb, four explosions had forced the insurance industry to reconsider their position:

- (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 an estimated £800 m worth of damage. (This estimate has in the meantime been considerably reduced - to £350 m - due to a number of factors including the fact that a number of buildings do not have to be demolished, as originally believed, the availability of cheaper replacement office space due to the downturn in the property market, and the low costs of building work due to the recession in the construction industry.)
- (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.

In all 46 devices exploded in 1992 while a number of others, including 3 bombs containing in excess of one tonne of explosives each, were found and defused. From the perspective of the insurance companies, having to cover the damage which would have been caused by the huge bomb placed beneath the Canary Wharf tower would have been far more costly than the City of London bomb in April last. (In the event the detonator exploded but failed to explode the main charge).

In December last year, members of the Association of British Insurers (ABI) met with the Department of Trade and Industry in an attempt to have the taxpayer cover the cost of damage occasioned by future paramilitary bombings. This followed a decision of large foreign re-insurers to refuse to cover such risks. (Since some risks are so great, such as the insurance of spacecraft and oilfields, for instance, the risk is spread to involve more insurance companies - re-insurance companies undertake to spread such large risks as their main function.) 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 paramilitaries. The Government, on the other hand, were adamant to avoid the introduction of a compensation scheme such as exists in Northern Ireland, where the taxpayer meets the cost of damage caused to any property which exceeds £220. (Since 1969 this has cost the British Government £680m).

Following that meeting it was announced that an agreement had been reached and that the insurance industry would establish a new mutual insurance company, Pool Re, into which premiums paid on new insurance policies drawn up solely to cover damage occasioned by terrorist acts would be pooled. (Terrorism cover was withdrawn from standard commercial insurance policies last November and most policy holders, whose policies would have come up for renewal on 1 January, were obliged to take out a policy with Pool Re if they wished to be covered in respect of future damage caused by terrorist bombings.)

The new arrangements established a pool from which claims would be met. 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.

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.

Newspaper reports indicate that no more than £200 m. will be collected by the pool this year. A spokesman for the ABI feared 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 exposed to the full cost of damage.

While initial estimates of the cost of the damage caused by the Bishopsgate bomb were put in the region of £1 b., an ABI spokesman is quoted in this morning's newspapers as referring to a figure closer to £400 m. (This is in line with the revision downwards of the cost of last April's Baltic Exchange bomb.) If this is an accurate figure the cost to the British taxpayer in respect of damage caused by this one bomb will be approximately £190 m., but all damage caused by terrorist bombings until the end of December will now have to be borne by the Government as the pool for the year will now have been exhausted.

As to the damage caused to the reputation of the City of London as a leading international financial centre, undoubtedly there has been some. The Bishopsgate bomb exploded as the annual meeting of the European Bank for Reconstruction and Development was taking place. But, as the business pages of the English daily newspapers point out, most international banks are more likely to be frightened away by the unobtainability of insurance cover than they are by the threat of bombing. This of course does not alter the fact that the British Government is now exposed to the full extent of any subsequent damage caused until the end of the year.

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26 April 1993.