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Terrorism risk insurance act vital to health of U.S. economy

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Imagine for a moment insurance companies were unable to cover future automobile accident claims. Motorists, through no fault of their own, would be left alone to absorb all possible losses associated with an accident and unable to secure future auto loans, as lenders may require auto insurance be carried by the borrower. Economic hardships would be the norm and citizens would be hard pressed to keep up with the cost of damages incurred. Car sales would decline and the viability of the automobile industry would be in question. Without a reauthorization of the Terrorism Risk Insurance Act (TRIA), the commercial real estate community faces the same dilemma.

Prior to the devastating attacks of 9/11, primary insurers and reinsurers generally did not exclude terrorism risk coverage from their policies. After 9/11 however, the insurance industry began excluding terrorism coverage from commercial insurance policies as they were unable to effectively model the risks associated with such acts. As a result, U.S. businesses found it nearly impossible to secure the commercial property terrorism risk insurance that is needed to safeguard assets and satisfy lender requirements.

Thankfully, TRIA was passed in 2002, establishing a program that gave insurers the confidence they needed to return to the commercial marketplace with terrorism risk coverage. Since its initial passage, TRIA has been reauthorized twice, allowing insurers to keep terrorism risk coverage available. The TRIA program kicks in when over \$100 million in damages are sustained from a certified terrorist act. Policyholders assume the first part of the risk via their deductibles, insurers then pay a portion of their previous year's direct earned premiums, and finally the federal government covers remaining catastrophic losses. TRIA also provides a provision that allows for the recoupment of federal funds paid out through the program, through a surcharge placed on policyholders.

Minus any congressional action, the program will expire on December 31, potentially leading to some dire business conditions that could inhibit economic growth. Businesses are already evaluating whether they'll be able to pursue development and expansion plans if the TRIA isn't reauthorized. Reauthorization is especially important in "high threat, high density" urban areas, but also invaluable in any area where large sporting venues, airports, colleges, hotels, shopping malls, convention centers and utility companies abound.

At present, the House Financial Services Committee and Senate Banking Committee have brought forward differing versions of a reauthorized TRIA bill. The Senate Bill, which passed the full senate by a vote of 93-4, is sponsored by senator Charles Schumer (D-NY) and is largely in keeping with the spirit of the current bill. It would extend the current program for an additional 7 years, while increasing the share of insured losses paid for by private insurance and directing the government to study the effects of premiums collected through the program. The Congressional Budget Office projects that the Senate bill would have zero long-term effect on the federal deficit. The House bill,

sponsored by Congressman Randy Neugebauer (R-TX) includes several additional changes, including the raising of the program trigger, a small insurer opt-out, and bifurcation between different types of terrorist attacks; while extending the program for an additional 5 years. These additional changes may lead to possible decreases in overall market capacity and availability, while increasing costs.

This legislation is of vital importance not only to the commercial real estate industry, but more importantly, to the health and vitality of the U.S. economy. The one truism in business is to "hope for the best but to prepare for the worst." The TRIA reauthorization legislation allows businesses to plan for continued growth with the peace of mind that if the worst happens, they will be covered and protected. Construction will proceed, jobs will continue to be created and the economy will remain resilient and forward moving. With the threat of terrorism very real in 2014, good legislation like the TRIA provides us all with a sense of relief.

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