Reauthorize TRIA Now:
A One-Year Extension Would Further Threaten our Economy

Despite clear consensus in Congress that the Terrorism Risk Insurance Act (TRIA) must be reauthorized, the issue somehow remains in limbo. This has already hurt the economy: the TRIA Program works solely on the basis of private insurers' willingness to write such insurance, and questions about the program's future are destabilizing. A one year (or shorter) stop-gap extension of TRIA actually exacerbates the problem. Insurers and their business customers need greater certainty to function properly, especially where long-term financing is involved. Kicking the can down the road to next year will, experts agree, sacrifice economic growth.

Impact on Insurers

The purpose of TRIA is to provide certainty to policyholders that terrorism coverage will be available, while allowing insurers to underwrite and price coverage prudently. A stop-gap extension undermines this purpose: as one major broker recently put it, failure to enact a multi-year renewal of TRIA would "ring a bell" for insurers and reinsurers causing a constraint on capacity and a corresponding increase in pricing. Indeed, it already happening --capacity is shrinking now. For further proof, see another major broker on Fox News here: http://video.foxbusiness.com/v/3806439658001.

Market analysts have consistently warned of the negative consequences of potential TRIA expiration. FitchRatings, for example, noted in a 2013 report that "[i]f [TRIA] program renewal becomes less likely…, [insurers] with higher exposures … will be reviewed for potential rating or Outlook changes." With this in mind, insurers are now adding "sunset" endorsements to renewal policies to exclude terrorism cover in the event of TRIA's expiration. The NAIC reports that insurers have been filing these conditional endorsements with their regulators since last year -- in other words, the insurance industry is not bluffing: insurers are conditioning continued terrorism coverage on renewal of TRIA. Passing a stop-gap extension only prolongs this uncertainty -- meaning that ***more renewals will be caught in this limbo.***

In the case of workers' compensation, where exclusions and sunset clauses are prohibited by law, insurers will simply withdraw from the market, and more business-owners will be forced into State-sponsored funds, which may not be properly capitalized for the increased risk.

Impact on Businesses Buying Insurance

Uncertainty over TRIA has already led some policyholders to seek terrorism cover from limited "stand-alone" commercial insurance markets, and to pay for it upfront to effectively "reserve" a portion of this very limited capacity in the event that TRIA were to expire. The impact of this will be felt most acutely in the coming end-of-financial-year renewal period, when those who did not "reserve" this capacity upfront will find it difficult if not impossible to find adequate cover -- resulting in more urban centers experiencing the sort of capacity squeeze already being felt in places like New York and San Francisco, with attendant climb in rates. A stop-gap extension of TRIA would merely ensure that this capacity squeeze continues and intensifies next year.

Besides this scramble to lock-up scarce capacity, TRIA's imminent expiration is already damaging the economy in other ways. Many businesses that need terrorism insurance utilize multi-year insurance programs -- particularly where backed by intermediate or long-term financing. Commercial real estate financings, for example, are typically at least 7 years or longer in duration. TRIA's expiration (or short extension) undermines insurers' ability to place multi-year insurance programs (up to three years) that are common when long-term projects are contemplated. This is particularly damaging for major infrastructure/construction projects, as such investments could be stalled and/or cancelled without certainty they can obtain terrorism insurance -- as happened in the 14 months between 9/11 and initial passage of TRIA in 2002. One of the country's leading real estate manager/developers recently told Bloomberg TV:

> *"Should Congress fail to extend the program, it will lead to a slowdown in the economy and investments. Insiders worry that the cost of insuring commercial properties will skyrocket and builders will pay higher premiums if the program expires."*

In today's commercial mortgage-backed securities (CMBS) market, borrowers with marquis properties will often finance a single building with one security. These financings represent approximately 20% of today's CMBS market. If TRIA was reauthorized on a short-term basis, discerning investors may well avoid these securities entirely, since the peril risk is concentrated on a single asset. This would dry up liquidity for some of America's best performing commercial properties, leaving them without access to the funding sources through the capital markets.

But this is not just a problem for "marquis" properties -- researchers from Morgan Stanley recently noted that the percentage of CMBS loans secured by properties outside the top 25 metropolitan areas has grown to nearly 50%, compared to less than 35% prior to the global financial crisis.

Congress Must Act Now

The threat of terrorism continues to grow. Former Vice President Dick Cheney recently cited a Rand Corporation report showing a 58 percent increase in the number of groups like al-Qaida around the world -- a "doubling of the number of terrorists out there." The persistence of this threat makes it a market necessity that businesses secure terrorism cover. Going bare is not an option.

Despite the fact that solid majorities in both chambers of Congress support reauthorization, bucking the problem into next year would cast further doubt on whether TRIA will ultimately be reauthorized. Congress failing to act on a longer-term reauthorization -- particularly after the Senate was able to pass its bill so overwhelmingly - would inject new fears into a market already in limbo. At best, it will prolong the uncertainty that is currently inhibiting economic growth, and at worst, it could contribute to a similar economic paralysis that necessitated TRIA's enactment in the first place. Congress needs to enact multi-year reauthorization of TRIA as soon as possible.