

## Expiration of bill raises "serious policy questions"

March 3, 2005  
Reuters News

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627 words

3 March 2005

17:02

**Reuters News**

English

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WASHINGTON, March 3 (Reuters) - Expiration later this year of a bill that helped companies offer terrorism insurance after the Sept. 11 attacks raises "serious policy questions," a U.S. Treasury official said on Thursday.

"Because of the importance of this element of the war on terror, insurers and insureds alike should know that this Administration is fully considering all of the possible options in order to make sure that this front is properly covered," Greg Zerzan, acting assistant secretary of the Treasury, said in prepared remarks.

The 2002 Terrorism Risk Insurance Act (TRIA) succeeded in making property and casualty risk insurance more readily available and affordable, Zerzan said.

But with TRIA due to expire on Dec. 31, the government is considering all options to make sure terrorism insurance remains available and affordable for property owners, Zerzan said at a **Networks Financial Institute's** regulatory reform summit.

Officials had worried after Sept. 11, 2001 that the insurance industry's reluctance to offer terrorism insurance, for fear of huge claims if there was another attack, would cramp development and construction, and hurt the economy.

Among options facing officials, the federal government could extend TRIA either temporarily or permanently, or allow it to expire and rely on the private sector to develop its own solutions for terrorism insurance.

### INSURANCE IMPACT

TRIA established a federal program of shared public and private compensation for insured commercial property and casualty losses from terrorism.

The act requires insurers to make terrorism insurance available, and in return the federal government guarantees that it will reimburse insurers for 90 percent of losses from terrorism, above certain thresholds. It was intended to ease the costs and increase the availability of terrorism insurance for properties after prices spiked in the wake of Sept. 11.

Total insured losses from the Sept. 11, 2001 attacks are estimated at \$31.7 billion, according to the Insurance Information Institute. Insured property losses totaled \$18.8 billion, according to the Insurance Services Office, a New Jersey company that tracks insurers.

Insurance and real estate industry executives who support TRIA's extension argue that without it, insurance companies will either stop offering the coverage or raise prices so much that builders and owners will not be able to afford it.

They say nothing has changed since the days following Sept. 11 because the U.S. war against terrorism is ongoing and the industry does not have enough information to assess the risk of attack - a key variable in pricing policies.

"Today, we're just not smart enough about terrorism risk, especially about the potential outsized event," said Steven Wechsler, chief executive officer of the National Association of Real Estate Investment Trusts and speaking for the Coalition to Insure Against Terrorism, which is pushing for extension.

But other groups oppose TRIA's extension, including The Consumer Federation of America, arguing the act was meant to be a temporary measure, and that the federal government should not maintain such an active role in the insurance industry.

Critics say the market should by now be able to meet the need for terrorism insurance on its own.

The Rand Corporation, a Washington research group, has proposed alternatives to TRIA. For example, Rand has said the terrorism insurance market could be supported through the issuance of catastrophe bonds.

Zerzan said on Thursday that while the Bush administration favors a market-driven solution to the issue of maintaining affordable terrorism insurance, it recognizes that insurance markets are constrained by state regulations.

"In the terror context, the variety of state regulation must be contrasted with the potentially nationwide distribution of risk ..." Zerzan said.

The Treasury Department is due to issue a report to Congress on TRIA by June 30.