

## House Panel Urges Talks On Terrorism Insurance Source: The Patriot-News

The chairmen of the House Financial Services Committee and a key subcommittee yesterday challenged insurers and regulators to use the August congressional recess to work out changes in the federal terrorism insurance backstop that would meet White House and other Republican objections and allow the program to be renewed this fall.

The Terrorism Reinsurance Act (TRIA) provides for the government to pay a portion of damage caused by a foreign terrorist attack once certain thresholds are exceeded. TRIA has been credited for stabilizing insurance and related markets after the Sept. 11, 2001, attacks, but is scheduled to expire at the end of this year.

The Bush administration has been reluctant to extend the program unchanged on the ground that it exposes the government to unacceptable levels of risk while retarding development of private insurance to take over its role.

Chairman Michael G. Oxley (R-Ohio) of the Financial Services Committee and Chairman Richard H. Baker (R-La.) of its subcommittee on capital markets, insurance and government-sponsored enterprises, said yesterday that they agree with those criticisms and called on lobbyists to use the August recess to work out modifications to address them.

Oxley said "extension of the program without reform would be unwise."

Baker said an acceptable renewal bill would "need to upwardly adjust" the amounts paid by insurers in the event of an attack; require insurers

to repay money provided by the government; and include a better "triggering mechanism" to determine the nature and size of an attack that would be covered by the program.

"Industry, get together and find a cheaper way to do this," Baker said.



Their comments came at a hearing of the subcommittee at which representatives of insurers, lenders, builders and others argued to continue the program in some form.

The Treasury Department last month released a study that concluded that on the whole TRIA has worked well. But it recommended changes to allow increased private coverage, including requiring an attack to cause \$500 million in damages to trigger the federal program.

Baker said he worries that such a high trigger would work to the detriment of rural areas and small insurers.

"In Louisiana, you could pretty much take everything out of there and not get to \$500 million, but it

would be pretty significant for us," Baker said. "I do believe, however, that the Treasury Department has indicated a willingness to work with the committee over the August recess" to come up with an alternative for consideration in September, he said.

Rep. Barney Frank (Mass.), ranking Democrat on the full committee, urged members -- including, he said, some in his own party -- not to oppose a federal program on the ground that it is a subsidy for insurers.

"The prime beneficiaries are not the insurance companies. The prime beneficiaries are the insured. The insurance companies could walk away from this," Frank said.

# Terror insurance end spurs debate

Federal program covers huge losses

By Ameet Sachdev Chicago Tribune Staff Reporter

Who should be on the hook for the costs of the next terror attack in the United States--taxpayers or the insurance industry?

The question is at the heart of a political debate under way in Washington that has taken on a new sense of urgency. A federal program that protects insurers from catastrophic losses in a terrorist incident, enacted after the 9/11 attacks, will expire at the end of this year if Congress does not renew it.

The issue is critical to businesses and workers in Chicago, as well as New York, San Francisco, Washington and other major cities that are home to dense populations and high-profile targets.

The case for extension of the Terrorism Risk Insurance Act, which has been pushed hard by the insurance industry, real estate companies and other business groups, gained impetus in the wake of the July 7 bombings in London. The government safety net, they contend, still is needed to ensure the economy can recover from another attack.

They face an unexpected foe: the business-friendly Bush administration, which wants to shift the risks of terrorism to the private sector. A recent Treasury Department report found that while the legislation did its job in stabilizing the private insurance market after 9/11, it's time for the government to bow out.

"The risk of terrorism is likely to remain a part of our lives for some time to come," Treasury Secretary John Snow said in remarks to the House Financial Services Committee last week. "That is precisely why the federal government needs to encourage the development of the most creative and cost-effective means of covering terrorism risks."

Snow left open the door to a short-term extension of act, but only with major changes that insurers might choke on. Among the revisions the administration is recommending are a steep increase, to \$500 million, in the size of the loss that triggers coverage and the elimination of certain lines of insurance.

Many high-ranking Republicans agree with Snow that the program must be overhauled to reduce taxpayers' exposure to risk and encourage more underwriting by the private sector.

"In the end," said Sen. Richard Shelby (R-Ala.), chairman of the Banking Committee that oversees the issue, "I believe the best way to deal with the challenges we face is to encourage innovation along all fronts and to draw upon the great strengths of our market-based economy."

Not surprisingly, Democrats, particularly those representing urban areas, have stepped up their support for the safety net in recent days. Some are skeptical that the private insurance market is ready to provide enough terrorism coverage on its own.

Uncertainty about the act's renewal has rippled through the insurance market. Chicago-based Aon Corp., the nation's second-largest insurance broker, reports that at least 80 percent of commercial property insurance includes exclusions or limits for terrorism risks beyond 2005.

That could be problematic if the London bombings spur greater demand for terrorism coverage. About half of all U.S. companies are insured for terrorism losses, according to a study by the Organization for Economic Cooperation and Development in Paris.

The legislation did not mandate the purchase of terrorism insurance, but rather that such coverage be made available. The 2002 law was passed after many insurance companies stopped providing terrorism coverage or made it extremely costly.

The situation prompted a crisis in the commercial real estate market. Nearly \$8 billion worth of transactions in the first half of 2002 were halted or delayed because of a lack of terrorism coverage, according to the Mortgage Bankers Association.

The program requires insurers to cover up to 15 percent of possible terrorism losses as a deductible. Above that threshold, the government would reimburse insurance companies for 90 percent of their losses, capped at \$100 billion a year.

Since the act's passage, terrorism insurance has become widely available, and prices have become competitive, said Jim Fox, chief financial officer of Transwestern Investment Co., a Chicago company that owns 23 million square feet of property across the nation.

If it expires, Fox fears he will have to cut some of the \$750 million of terrorism coverage Transwestern has because premiums might rise dramatically.

Aon's Aaron Davis predicts that without the government's involvement in terrorism insurance, premiums for owners of big office buildings in high-risk cities could double or triple.

"For many clients, dropping coverage is not an option," said Davis, vice president of national property syndication. "They have loan covenants in place requiring certain levels of coverage."

But some economists say the law has distorted prices, making terrorism coverage cheaper than it otherwise would be. One of the leading critics of extending the legislation is Jeffrey Brown, an associate professor of finance at the University of Illinois College of Business, who was involved in drafting the insurance legislation while working for the White House Council of Economic Advisers.

"The government is essentially giving away this insurance for free," Brown said. "It's not free to the taxpayer. If there is ever a claim, the money has to come from somewhere, whether it be higher taxes or reduced spending."