NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

Terrorism Risk Insurance Act (TRIA)

Prior to the terrorist attacks of September 11, 2001, insurers did not specifically exclude losses stemming from terrorist attacks on industrial and commercial office buildings. At that time, only "acts of war" were excluded from coverage from most insurance policies. In the aftermath of the attacks, however, insurance companies began to exclude terrorist acts from coverage. As a consequence, commercial real estate developers could not obtain adequate insurance coverage.

In order to guarantee that insurance coverage would be available for the commercial real estate industry, Congress passed the Terrorism Risk Insurance Act of 2002 (TRIA), which created a federal reinsurance backstop program for terrorism insurance, and mandated that insurers make terrorism coverage available along with their property and casualty lines of insurance. Congress has repeatedly extended the program.

The federal terrorism risk insurance program expires at the end of 2014, and the private insurance market has not attained the capacity to provide terrorism risk insurance and meet the needs of the commercial real estate industry. Congress must renew the current program early this year to avoid severe disruption of commercial real estate markets. Property owners whose insurance policies are up for renewal are already receiving notices that their policies will contain language excluding acts of terror from coverage if the federal program is not renewed.

Several bills have been introduced in the House of Representatives to extend the program, including H.R. 508, The TRIA Reauthorization Act of 2013, and H.R. 2146, The Terrorism Risk Insurance Program Reauthorization Act of 2013.

NAIOP strongly supports continuation of the terrorism risk insurance program, and urges Congress to pass legislation early this year in order to prevent uncertainty and disruption in commercial real estate markets.

- After 9/11, the availability of terrorism insurance for commercial real estate virtually disappeared. Adequate insurance coverage is required by lenders as a condition of financing for commercial real estate. As a consequence, deferred construction investment cost amounting to more than $15 billion dollars cost the economy more than 300,000 jobs.

- Terrorist acts are man-made, infrequent, and intentional -- designed to overcome any efforts at mitigation. As such, they are unlike hurricanes or earthquakes where there is sufficient historic data, and insurers have access to information and extensive loss histories, allowing them to develop adequate risk models.
- According to surveys conducted by the Risk and Insurance Management Society (RIMS), a majority of risk professionals believe expiration of the federal terrorism risk insurance program would result in a drastic reduction in available terrorism coverage, or even the total elimination of such coverage.
- While the program was originally intended to provide time for the insurance industry to develop capacity to cover terrorism, the fact is the reinsurance market has not yet developed sufficient capacity to cover losses from terrorism, and is unlikely to develop enough capacity for several years.
- The program is fiscally responsible, with little cost to the taxpayers. Without the federal risk insurance program, risks that are now privately insured would not be. In the aftermath of another major terrorist attack, the pressure for federal assistance would be great, and the U.S. taxpayers would end up paying more if the program is not extended.

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