AUSTIN & STANOVICH
RISK MANAGERS LLC
Systematic Approach • Technical Expertise • Efficient Solutions
info@austinstanovich.com www.austinstanovich.com
15 West Street, Suite 204, Douglas, MA 01516 42 Weybosset Street, Suite 500, Providence, RI 02903
508-476-3347 or 401-751-2644

January 8, 2003:

The Terrorism Risk Insurance Act of 2002

Why was it enacted?

Many insurers implemented terrorism coverage exclusions after the terrorist acts of September 11, 2001. A limited market for terrorism coverage evolved in the months following September 11, but coverage differed by insurer, sometimes lacked catastrophic limits and came at a cost thought to be excessive. Many insurance and business groups asked the US government to provide assistance.

On November 26, 2002 President Bush signed the "The Terrorism Risk Insurance Act of 2002 (TRIA)". The Act provides catastrophic reinsurance protection to the insurance industry, subject to a $100 billion cap, for certain acts of terrorism. The Act ends on December 31, 2005.

What acts of terrorism are covered by TRIA?

TRIA applies to terrorist acts certified as such by the Secretary of the Treasury, in concurrence with the Secretary of State and Attorney General. To be certified the terrorist act must be: 1-violent, dangerous to human life, property or infrastructure, 2-committed within the USA, its territories or possessions, or outside the USA if a US flag aircraft or watercraft or USA mission, 3-be committed by individual(s) acting on behalf of foreign person(s) or interest(s) to coerce the civilian population of the USA or affect the conduct of the US Government by coercion and 4-cause property and casualty losses in excess of $5,000,000.

Are all insurance policies subject to TRIA?

No. Only commercial lines of property and casualty insurance, including excess insurance, workers compensation and surety insurance are subject to TRIA.

Specific exceptions to TRIA include federal crop insurance, private mortgage insurance, financial guaranty insurance, medical malpractice insurance, health and life insurance (including group life insurance), federal flood insurance and reinsurance.

What is the immediate result of TRIA to commercial insurance buyers?

All terrorism exclusions related to a certified act of terrorism are void as of November 26, 2002. Insurers must notify insureds holding in-force insurance policies of TRIA coverage options and cost by February 24, 2003. Once notified, an insured has 30 days to accept coverage and pay premium for the TRIA terrorism coverage or provide the insurer with a written declination.

All new and renewal policies written during this period must include a specific notice from the insurer offering the TRIA coverage and disclosing the cost of the coverage. The insured can decline coverage.

Policies written after February 24, 2003 must include, at the time of offer and purchase, a separate line item for terrorism insurance costs. Of course, the insured can decline coverage.

What will it cost?

There are two costs of TRIA insurance. First, there will be a specific premium charge related to TRIA coverage and this premium will differ by insurer.

Many industry experts expect to see volatile pricing early on, followed by stability as competitive pressure increases and rates decrease.

The second cost is a possible future charge required of insurers and passed on to commercial insureds. In the event of a certified act of terrorism, the federal government is required by TRIA to obtain reimbursement for certain costs it pays out under the Act for insured terrorism losses during the TRIA period. This charge cannot exceed 3% of an insured's premium.

Is there any negative reaction to TRIA?

A terrorist act may not meet the definition of "certified". An example is an act of domestic terrorism, such as the 1995 Oklahoma bombing. Coverage for domestic terrorism may not be as broad as that available under TRIA.

Insurers may not have adequate information for rate making which may lead to great disparity in rates charged by insurers.

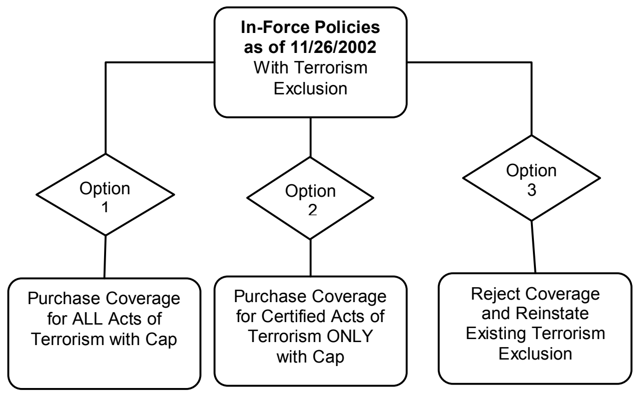
Under TRIA, terrorist acts must be insured to the same extent as any other peril insured by the policy. Some insurers may decrease coverage and limits on non-terrorism coverage to allow them to reduce coverage for terrorism.

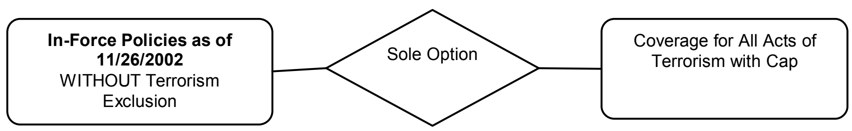
What should you do?

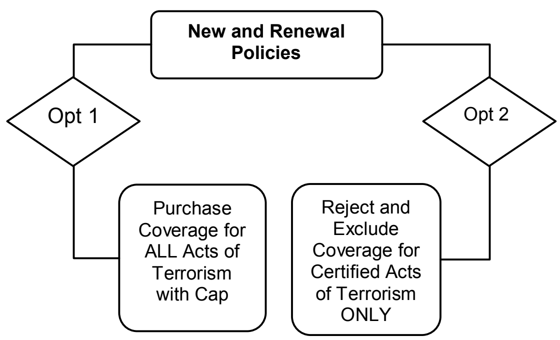
All risk management decisions begin with exposure identification: what is our risk of terrorism? The risk needs to be viewed in terms of coverage offered, deductible and cost to insure and probable maximum loss.

Some insureds may find that self-insurance is a prudent step to take. Others may determine, based on property locations, profile, adjacent exposure and employee concentrations, that insurance is critical. (See Reverse Side)

The diagrams below demonstrate an insured's options for terrorism coverage under ISO Property, Crime, Inland Marine, Boiler, CGL and Umbrella as of January 1, 2003. Some insurers may file independent versions to conform to TRIA.







Additional information is available at the following websites:

National Association of Insurance Commissions: www.naic.org
Insurance Information Institute: www.iii.org
Insurance Services Office: www.iso.com

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