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Nation's Terrorism Insurance Program Due to End in December

The Terrorism Risk Insurance Act of 2002 ("TRIA") is a federal statute that established a temporary federal program, providing for a system of shared public and private compensation for insured commercial property and casualty losses arising from acts of terrorism. TRIA will sunset this December 31, 2005.

With the expiration date looming, companies should evaluate their terrorism-related risks. They should also be prepared to implement risk-transfer strategies if necessary.

Congress may consider extending TRIA this fall. Insurers are lobbying Congress to extend the program for two years. This would buy time for the industry to build a private fund to act in TRIA's place. TRIA's critics argue that extending it would impede the development of a broad-based solution and increase the industry's dependence on the federal program.

Regardless of TRIA's legislative fate, companies should assess their terrorism exposure. Insurers are poised to negotiate with commercial clients to renew their policies for 2006. Measures for evaluating your terrorism risks include:

- Consider contractual issues and review any bank loan covenants that may require you to purchase terrorism insurance. For example, certain banks and mortgage lenders may decline to lend money to commercial real estate projects without terrorism coverage. If TRIA expires, some developers may be unable to find such coverage.
- Review your current terrorism insurance coverage, if any, and prepare to address any change in the law.
- Inform management of the current status of your terrorism insurance coverage and the decision the business is facing.

For assistance in assessing the potential effects the TRIA sunset may have on your business, or for assistance in evaluating your terrorism insurance coverage needs, please contact Jeffrey Clark at 414-298-8131.

POSTED:

Nov 25, 2005

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