TERRORISM RISK INSURANCE

NMHC/NAA Viewpoint

Given lender requirements for apartment owners to purchase terrorism insurance and the limited availability of such insurance in the private market, a federal backstop for this insurance continues to be a necessity. This program fills a critical insurance need and provides stability in the marketplace.

Most lenders require apartment owners to carry terrorism risk insurance. Prior to the 9/11 terrorist attacks this was not a problem, as most general insurance programs included terrorism risk coverage. However, after the attacks, private carriers began dropping terrorism coverage from their policies. Within a short time, terrorism risk insurance coverage was simply unavailable or excessively priced, but nonetheless still mandatory for most property owners due to the terms of their loans.

In an effort to fill this critical void, Congress passed the Terrorism Risk Insurance Act (TRIA) in 2002, which provided a federal backstop for insured losses resulting from acts of terrorism. Administered by the Treasury Department, the program has been successful in ensuring the widespread availability and affordability of terrorism risk insurance and bringing stability back into the private insurance market.

While the program was intended to be a short-term solution, the private insurance market has yet to recover enough to be able to meet the widespread demand for terrorism risk coverage. The April Boston Marathon bombings are a reminder that the continued threat of terrorism remains high. The program has been extended three times, most recently by the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) after a significant advocacy campaign waged by NMHC/NAA and our industry partners.

Ninety-one percent of NMHC survey respondents report having terrorism insurance in 2012, up from 85% the prior year.

The reauthorization did not simply extend the program, it also made some modest changes aimed at increasing taxpayer protections and private market participation. Specifically, it incrementally raises the program trigger to $200 million from $100 million and reduces the federal loss share from 85 to 80 percent. It also increases the level of federal recoupment by $10 billion. The Treasury Department has oversight over the program and will issue regulations in 2015 to implement the changes.