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TRIA Still a Concern to CRE Executives

By Erika Morphy | National

The Capitol

WASHINGTON, DC--Commercial real estate executives won't relax until the terrorism insurance backstop is passed, according to the latest **Real Estate Roundtable** survey. The Senate **voted to renew the terrorism insurance law** on July 17 for seven years. House legislation proposing a five-year extension cleared committee in June, but that remains in limbo until Congress reconvenes in September.

"Commercial real estate remains on a generally positive path, yet there is significant concern about Washington inaction on a range of policy matters affecting our industry," said Roundtable President and CEO **Jeffrey D. DeBoer**, in a prepared statement. "The most pressing of these is TRIA, whose potential expiration could trigger a wave of technical defaults, renewed problems for banks and bond holders, and lost jobs as financing for new and existing projects dries up," he said.

Data for the current survey was gathered July 7–22 by Chicago-based **FPL Associates** on The Roundtable's behalf, a time period that produced economic reports illustrating the ongoing economic recovery. Yet respondents are still concerned about that as well. The "Future" index, for example, has reached 67 after a two-point drop last quarter, but is one point lower than at this time last year. This is a reflection of a lingering wariness among industry executives about prospects for a sustainable economic recovery, The Roundtable concludes.

"Survey respondents also cite interest rate policy — and the broader issue of borrowing costs — as a 'wild card' that could hurt property valuations," DeBoer also said.

On the other hand the "Overall" and "Current" indices rose slightly (to 70 and 72, respectively) since the previous quarter. It is here, The Roundtable concluded, that the positive reports about higher-than-expected GDP growth during April, May and June, and the creation of 240,000-plus jobs, on average, during each of the past six months, was reflected.

Still, the uncertainty over TRIA is casting a shadow over these gains. DeBoer reports that the lack of legislation is already affecting policyholders seeking to renew terrorism insurance policies beyond year-end. One problem appears to be the varying approaches that the two Congressional chambers are taking. A **report**, "TRIA after 2014" by the **Wharton Risk Management and Decision Processes Center**, highlights this issue.

One measure of particular interest to insurers, regulators and rating agencies is the ratio of the insurer's TRIA deductible amount in relation to its surplus, according to the report. A higher deductible/surplus (D/S) ratio implies that the insurer is more exposed to losses from a terrorist attack, with a D/S ratio greater than 0.15 generally regarded as a high measure of relative exposure to terrorism.

According to its analysis, a D/S ratio of 0.15 has already been reached or exceeded by a number of insurers under the current design of the TRIA program. "Should the deductible level be increased again," the report said, "some companies could face a significant risk of insolvency or financial distress after a severe terrorist attack because they will not have sufficient capital to pay their claims. Other insurers might stop selling insurance to some of their commercial clients to avoid having too high a concentration of terrorism exposure in one location," such a large city.

However, an analysis by Marsh that was **reported** in CFO.com, suggests insurers are feeling fairly sanguine about the issue. The demand for policy exclusions of terrorism coverage if the law sunsets "has subsided for insurers," according to comments made by Duncan Ellis, the property insurance leader for Marsh, during a webcast on Thursday on which the publication reported.

About Our Columnist

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