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REAL ESTATE BOARD OF NEW YORK

Steven Spinola
President

September 18, 2013

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling and Representative Waters:

The Real Estate Board of New York, representing over 14,000 owners, developers, managers, and brokers of real property in New York City, thanks you for the opportunity to express our support for, and stress the urgency of, extending the federal Terrorism Risk Insurance Program.

New York City's real estate includes icons and structures that can be viewed as symbols of America's identity, such as Times Square, the Empire State Building, our stadiums, the Brooklyn Bridge, Central Park, and of course the reconstructed buildings of the World Trade Complex. But unfortunately in this day and age, every structure in America has a need for protection against terrorism. Although it is commonly acknowledged in the insurance industry that the New York City metropolitan area is in the highest tier of risk in the country (along with Washington DC, San Francisco, and Chicago), the events during the Boston Marathon earlier this year have shown that other areas are equally at risk and terrorism can happen anywhere at any time.

According to a 2013 report by Marsh Global Analytics, the need for terrorism risk insurance isn't specific to the real estate industry; the media, education and financial industries each had insurance take-up rates at or over 75% in 2012—higher than the real estate industry. Additionally, the demand for terrorism risk insurance has remained strong in the years since 9/11, with the overall take-up rate across all industries remaining around 60% since 2005. Which is why with the expiration of TRIA at the end of 2014, it is critical for Congress to renew this important legislation.

Prior to 9/11, insurers generally did not segregate terrorism insurance or charge separately for it. However, when the insured losses from the 9/11 attacks came in around $40 billion, the largest insured losses from a non-natural disaster on record, insurers realized the magnitude of possible losses in the future, and terrorism insurance became prohibitively expensive and insurers began leaving the market. In response, the federal government passed the Terrorism Risk Insurance Act in late 2002, which was then amended and extended in 2005 and 2007.

Currently, TRIA is triggered when (1) a single terrorist act causes $5 million in damage; (2) the aggregate insured loss from certified acts of terrorism are $100 million in a year; and (3) an individual company must meet a deductible of 20% of its annual premiums. Once these thresholds are passed, the government covers 85% of insured losses due to terrorism. If aggregate insured losses due to terrorism do not exceed $27.5 billion, the Secretary of the Treasury is required to recoup 133% of the government coverage by the end of 2017 through surcharges on property/casualty insurance policies.

Because of this structure, to date, TRIA has not caused any cost taxpayers any dollars. In fact, according to a 2007 study by the RAND Corporation, TRIA may even reduce taxpayer cost after a major attack, because government spending through the program would be less than government compensation for those with uninsured losses. Additionally, the availability and the federal backstop has allowed for New York City's real estate industry—valued at $814B in assets—to receive adequate coverage for New Yorkers, for the City's building stock, and for investors who would otherwise not lend for new construction, renovations, or mortgages. Without this protection, New York City real estate transactions—and the businesses and residents it locates and houses—would again stall, providing yet another blow to our recovering economy. A study published by the Real Estate Roundtable points out that in the 14 months between the Sept. 11, 2001 terrorist attacks and the enactment of TRIA, over $15 billion in real estate-related transaction were either stalled or canceled because of lack of terrorism insurance.

The federal Terrorism Risk Insurance Program protects the economic activity of all urban areas—including New York City, the country's largest regional economy—which are increasingly targets for terrorist activity. I urge you to act quickly to reauthorize this program and provide certainty of future coverage for our industry. Please do not hesitate to contact me if you have any questions or need additional information.

Sincerely,

Stephen Spinola
President