CAROLYN B. MALONEY
14TH DISTRICT, NEW YORK

2331 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-3214
(202) 225-7944

COMMITTEES:
FINANCIAL SERVICES

GOVERNMENT REFORM

JOINT ECONOMIC COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515–3214

DISTRICT OFFICES:

☐ 1651 THIRD AVENUE
SUITE 311
NEW YORK, NY 10128
(212) 860-0606

☐ 28-11 ASTORIA BOULEVARD
ASTORIA, NY 11102
(718) 932-1804

WEBSITE: www.house.gov/maloney

Testimony of Congresswoman Carolyn B. Maloney
Before the New York City Council Committee on State and Federal Legislation
Terrorism Risk Insurance Program Reauthorization Act of 2007
Monday, June 17, 2013

Thank you for inviting me here today to discuss this critically important issue. Everyone here knows that New York City remains a top target for terrorists, and reauthorizing the Terrorism Risk Insurance Act is absolutely essential to the city's continued economic well-being. After 9/11, businesses across the country, and especially in New York City, could not get terrorism insurance. This crippled the construction, real estate finance, and tourism industries. TRIA provided businesses and insurers with much-needed certainty by establishing a stable, long-term federal support system for terrorism risk insurance. This helped the economy bounce back after 9/11, and ensured that terrorists could not wreak havoc on our economy and our way of life.

The long-term extension of TRIA in 2007 confirmed that federal support for terrorist risk insurance is a non-partisan, common-sense safeguard for our economy. Passage of the TRIA extension ensured that if, God forbid, another terrorist attack does occur, we will be able to keep our markets open, our cities vibrant and our economy strong. Opponents will claim that TRIA is unnecessary, but we need to remember that just because the federal backstop in TRIA has never been used, does not mean that it is unnecessary. On the contrary, as the recent terrorist attack at the Boston Marathon demonstrated, TRIA remains as necessary as ever. The current TRIA program is scheduled to expire at the end of 2014. We cannot let that happen.

I support several bipartisan efforts moving through Congress right now to extend the TRIA program. It is absolutely essential that all of New York's Congressional Delegation support these efforts and I thank the Council for proposing this resolution in support of TRIA reauthorization. I will be doing all I can to extend this program and look forward to working with the Council on this incredibly important effort. I'd be happy to take your questions.

REAL ESTATE BOARD OF NEW YORK

Testimony before the Committee on Housing and Buildings of the New York City Council
Regarding Terrorism Risk Insurance

Angela Sung Pinsky
Senior Vice President, Management Services and Government Affairs
Real Estate Board of New York

June 17, 2013

Good morning Chairperson Foster and members of the Committee on State and Federal Legislation. 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 testify about the necessity of extending the federal Terrorism Risk Insurance Program. New York City – with its numerous icons and structures that have come to represent parts of the American identity, including Times Square, the Empire State Building, our stadiums, the Brooklyn Bridge, Central Park, and of course the reconstructed buildings of the World Trade Complex – has a specific need for protections against terrorism. Although the events in Boston have shown that this not an issue that is unique to us, 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. This risk is reflected in the number of businesses and organizations that purchase terrorism risk insurance, and the Northeast has the highest rate of take-up of terrorism risk insurance of the country – over 70% in each of the last three years. Which is why with the expiration of TRIA at the end of 2014, it is critical for the City Council of New York to have this hearing and to pass a resolution urging 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.

In February of this year, Congressmembers Michael Grimm and Carolyn Maloney introduced H.R. 508 to extend the TRIA program's expiration date five years until the end of 2019. Additionally, in May, Representatives Mike Capuano (D-MA) and Peter King (R-NY) introduced an extension to TRIA for ten years. Both bills have support from New York City's delegation. However, as you know, it is becoming increasingly difficult to pass legislation in the House and Senate because of the bi-partisan gridlock in Congress. In meetings with members of Congress, we have heard TRIA referred to as "another New York City bailout" and "a Wall Street problem." Which is why it is critical for New York City to make the case in Washington that TRIA protects the economic activity of all urban areas, including the country's largest regional economy, that are increasingly targets for terrorist activity. Thank you again for inviting me to speak on this issue, and I hope you will pass this resolution quickly.

Alliance for Downtown New York, Inc.
120 Broadway, Suite 3340
New York, NY 10271
212 566-6700 Fax 212 566-6707
www.DowntownNY.com

Committee on State and Federal Legislation

Hearing on a Resolution calling on the United States Congress to pass, and the President to sign, legislation that would extend the Terrorism Risk Insurance Program Reauthorization Act (TRIA)

New York City Council, Committee Room
10:30 am Monday June 17, 2013

Chairperson Foster and the members of Committee on State and Federal Legislation, I am Andrew Breslau, a Vice President of the Alliance for Downtown New York, which manages the Downtown-Lower Manhattan Business Improvement District.

We come before you today to urge you, in the strongest terms, to support this resolution. Simply put, without Congressional reauthorization of TRIA and the President's support, the last twelve years of hard work revitalizing Lower Manhattan and the effectiveness of the billions of private and public dollars invested in the district might be dramatically blunted. Not only would such a failure be potentially devastating to Lower Manhattan but our entire region's economy would suffer for it.

Since 12:01 pm on Thursday, September 16, 1920, when a horse drawn carriage laden with dynamite exploded on Wall Street killing 38 and seriously injuring another 143 New Yorkers, Lower Manhattan has been the number one target for those who wish to practically and symbolically wage war against our country and way of life. Whether it was that 1920 bombing, the 1993 Trade Center attack or the awful events of September 11, 2001, our history has shown that the district's residents, visitors, businesses and property owners have borne a heavy burden of risk. That burden, while carried in distinct ways by Lower Manhattan, is not unique to us. Whether it's recent events in Boston or the threats to Times Square here that require our constant vigilance—this is a city wide and a nationwide issue.

The Terrorism Risk Insurance Act of 2002 (TRIA) and its successor bills that were passed in the wake of the 9/11 terror attacks ensure the availability of terrorism risk insurance for those who build our neighborhoods and others that have borne similar risks. If TRIA were to lapse at the end of 2014 billions, possibly trillions, in commercial loans that are required to have terrorism insurance would be in technical default creating a massive disruption to our city, the region and nation.

In managing the threat of terrorism we often hear that "carrying on" is the watchword we must live by. In order to "carry on," a significant responsibility for all of us is to help ensure stability and predictability for the business community. TRIA provides that stability. Its requirements --that business insurers offer terrorism coverage for the types of insurance included in the act, and that the federal government provide a backstop for medium to large financial losses due to terrorism—are both sensible and prudent. The legislation takes great pains to minimize the long term financial risk to the public and allows business to be conducted in an atmosphere of potential and possibility not undue anxiety.

Without a government backstop for terrorism insurance such as TRIA, private terrorism risk insurance coverage would simply not be commercially available – as was the case following 9/11. Allowing such economic vulnerability to be the case once again should simply not be entertained.

We urge your support for this resolution and thank you for your work and concern on this matter.

BOMA NEW YORK

Testimony of Sylvester Giustino on behalf of the Building Owners and Managers Association of Greater New York Inc. (BOMA/NY)

Council of the City of New York Committee on State and Federal Legislation Hearing in relation to Res. 1806-2013

June 17, 2013

Good Morning, Chair Foster and members of the New York City Council Committee on State and Federal Legislation. My name is Sylvester Giustino, Director of Legislative Affairs for the Building Owners and Managers Association of Greater New York, Inc. (BOMA/NY). BOMA/NY represents more than 750 owners, property managers and building professionals who either own or manage 400 million square feet of commercial space. We're responsible for the safety of over 3 million tenants, generate more than $1.5 billion in tax revenue and oversee annual budgets of more than $4 billion. BOMA/NY is the largest Association in the BOMA International federation, the world's largest trade organization. The commercial real estate industry is a significant contributor to the nation's, and in particular the city's economic engine. Our industry employs over 228,000 New Yorkers and contributes over $14 Billion dollars to the Gross State Product.

Terrorism continues to pose a threat to our nation, to American businesses and to real estate. It is a unique risk with potentially catastrophic implications for our economy and our way of life. Nowhere is the risk higher than here in New York City, where we are the Number 1 target of foreign and domestic terrorists.

Following the September 11, 2001 terrorist attack, many owners of commercial properties were advised that their policies would not be renewed or that their new policies would exclude terror/war risks. Without adequate insurance, it is difficult, if not impossible, to operate or acquire properties, refinance loans, and to sell commercial-backed securities. Since 9/11, BOMA and our partners in the Coalition to Insure Against Terrorism (CIAT) have worked tirelessly to promote and implement a federal backstop program. We scored huge victories when Congress passed the Terrorism Risk Insurance Act of 2002 and again in late 2005 when Congress voted to extend TRIA for an additional two years. On December 26, 2007, just days before the Act was once

BUILDING OWNERS AND MANAGERS ASSOCIATION OF GREATER NEW YORK, INC.
11 Penn Plaza, Suite 2201
New York, New York 10001
Telephone (212) 239.3662
Facsimile (212) 268.7441
E-mail info@bomany.com
http://www.bomany.org

again set to expire, President Bush signed H.R. 2761 into law to extend the program for an additional seven years through the end of 2014.

In addition to extending the federal program, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) expanded the definition of "act of terrorism" to allow the certification of acts of "domestic terrorism"; clarified the operation of the $100 billion annual program cap; and changed the manner in which the mandatory portion of post-event policyholder surcharges would be collected. It also requires the U.S. Government Accountability Office (GAO) to conduct a study of the availability and affordability of insurance coverage for nuclear, biological, chemical and radiological (NBCR) acts of terrorism.

BOMA/NY supports the passage of Res 1806-2013, a Resolution calling on the United States Congress to pass, and the President to sign, legislation that would extend the Terrorism Risk Insurance Program Reauthorization Act of 2007. The reauthorization of TRIPRA by the end of 2014 is a top legislative priority for BOMA/NY and our partners in the CIAT. TRIPRA must remain in effect until the reinsurance industry is prepared to accurately underwrite and assume the whole risk. It would permit many construction projects to move forward, help the economy grow, and investors and markets would have greater confidence that our economy was strong enough to withstand a future attack.

We look forward to working with the City Council and the New York Congressional delegation along with our coalition partners to make sure that Congress passes, and the President signs. legislation that that would extend the Terrorism Risk Insurance Program Reauthorization Act of 2007 by December 31, 2014.

Thank you for giving BOMA/NY the opportunity to testify in support of this important Resolution.

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CNYC

Council of New York Cooperatives & Condominiums

INFORMATION, EDUCATION AND ADVOCACY

250 West 57 Street • Suite 730 • New York, NY 10107-0700

MEMORANDUM IN SUPPORT OF THE CITY COUNCIL RESOLUTION CALLING UPON THE U.S. CONGRESS TO PASS, AND THE PRESIDENT TO SIGN LEGISLATION TO EXTEND THE TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007

June 17, 2013

My name is Mary Ann Rothman. I am the executive director of the Council of New York Cooperatives & Condominiums, a membership organization for housing cooperatives and condominiums located throughout the five boroughs of New York City and beyond. More than 170,000 New York families make their homes in our member buildings, which span the full economic spectrum from very modest housing to some very upscale dwellings. Cooperative and condominium home owners can have a voice in how their homes are run. They are involved in their communities and vote in significant numbers. Cooperatives and condominiums are known to anchor and stabilize marginal communities. They're even good for the environment, benefitting from economies of scale in energy consumption.

I am here to support the resolution before the Council today.

It is important that homes and businesses be well protected when disaster strikes. This legislation was first passed by the Congress in 2003 upon recognizing that many private insurance companies were reacting to the unspeakable events of September 11th, 2001 by excluding or severely limiting the benefits that they would pay in the event of incidents of terrorism. The creation of TRIA required insurers to cover acts of terrorism, and, at the same time, it lightened their financial burden to do so by creating the Federal Terrorism Insurance Program, a shared public/ private system for covering insured losses incurred through acts of terrorism. By thus mitigating the cost insurance companies could incur in a worst-case scenario, TRIA created a climate where insurance premiums could be established a levels that allowed property owners to protect their assets fully.

Sadly, the need for this program continues to be great, as acts of terrorism continue worldwide. CNYC supports passage of this Resolution and of the Congressional legislation that it calls for.

Thank you.

Phone 212 496-7400 • Fax 212 580-7801 • e-mail info@CNYC.coop • Website: www.CNYC.coop

One Battery Park Plaza New York, NY 10004-1479
T 212 493 7400 **F** 212 344 3344 www.partnershipfornyc.org

PARTNERSHIP for New York City

TESTIMONY BEFORE THE COMMITTEE ON STATE AND FEDERAL LEGISLATION OF THE NEW YORK CITY COUNCIL

HEARING ON RES. NO. 1806

**JESSICA WALKER
VICE PRESIDENT, GOVERNMENT AFFAIRS**

MONDAY, JUNE 17, 2013

The Partnership for New York City represents the city's business leadership and its largest private sector employers. We support Council Resolution 1806, which calls for the extension of the Terrorism Risk Insurance Act (TRIA) before it expires next year. This is critical for New York City, which remains the #1 U.S. target of international terrorism.

In November 2001, the Partnership released an economic impact study, which estimated that the 9/11 attack caused a loss of at least $83 billion in gross economic output. Even after payment of insurance claims of about $47 billion and the federal government's pledge of about $20 billion for rescue, cleanup and infrastructure repair costs, the net damage to the city's economy was at least $16 billion. City businesses faced increased operating costs due to added security and insurance burdens. The city also lost nearly $3 billion in tax revenue directly attributable to the attack and independent of the effects of the recession.

One of the immediate concerns facing the city's economy after 9/11 was availability of terrorism risk insurance for business. The private sector was simply unable to shoulder the burden of such an unpredictable—and potentially extremely costly—risk. To provide certainty to business and industry, TRIA was signed into law in 2002 and reauthorized in 2005 and 2007.

TRIA has worked, allowing businesses to purchase terrorism insurance over the last decade. Without it, businesses large and small would not be able to protect their assets against the risk of terrorism.

There is now an urgent and continuing need to extend TRIA, which is set to expire at the end of next year. Since 2002, the insurance industry has assumed increased liability under the program, but there remains a need for the federal government to continue to provide a backstop against catastrophic attacks, which the private sector alone cannot sustain.

We thank the City Council for raising this issue early in the process and look forward to collaborating with all stakeholders to represent New York's interests in Washington this year and next to ensure that TRIA is reauthorized. Thank you.

FOREST CITY RATNER
COMPANIES

Testimony of

John L. Hunt
Forest City Ratner Companies

before the

New York City Council Committee on State and Federal Legislation

regarding

A proposed Resolution calling on the United States Congress to extend the Terrorism Risk Insurance Act of 2002 (TRIA) and its successor bills

June 14, 2013

Good morning, my name is John Hunt and I am a Senior Vice President and Senior Counsel of the Construction and Design Development Division of Forest City Ratner Companies.

On behalf of Forest City, I would like to thank the Committee on State and Federal Legislation for holding this hearing on its proposed resolution in support of the extension of the Terrorism Risk Insurance Act of 2002 and its successor bills, including the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIA), which is scheduled to sunset at the end of next year. This act is critically important not only to Forest City but to the entire real estate industry in New York, and we greatly appreciate the Council's efforts in supporting its extension.

Forest City Ratner Companies is a wholly-owned subsidiary of Forest City Enterprises, Inc., an $11 billion real estate development firm traded on the New York Stock Exchange. We own and manage over 15 million square feet of commercial, retail and residential property in New York City and the greater metropolitan area, including Barclays Center, 8 Spruce Street – the Frank Gehry-designed residential tower whose rippling façade can be seen from just outside the doors to this building, The New York Times building, and MetroTech Center in Brooklyn, among others.

Insuring high-profile, high value properties and new construction projects in New York has always been an expensive proposition, but in the wake of the September 11th attacks, insuring such properties against terrorism risks became impossible. Rather than an issue of cost, we had a crisis of availability as insurers realized the impact a catastrophic event like 9/11 could have on their balance sheets. Insurers were simply unwilling to provide terrorism coverage, and it became routine for them to specifically exclude terrorism risks at policy renewals.

In response, Congress wisely passed TRIA in 2002, ensuring the availability of terrorism insurance and providing a backstop to insurers for losses due to acts of terrorism. The program provides for federal reimbursement of insurers for 85% of their losses resulting from a terrorist attack, but only after insurers pay a deductible of 20% of the value of each company's direct earned premiums from the previous year. The federal government's obligations would be triggered by aggregate industry losses of over $100 million but be capped at an annual sum of $100 billion. Federal government losses would then be recovered over time through policyholder surcharges. The program was initially set to expire on December 31, 2005 but was re-authorized in 2005, and in 2007 congress extended the program through 2014. The cost to taxpayers has been very low, but the program has been highly successful at averting the paralysis in the real estate industry that would have been caused by the absence of terrorism coverage.

We strongly support the further extension of TRIA because if the program is allowed to expire at the end of 2014, we believe insurance carriers will not continue to offer terrorism coverage, and those that do so would offer it at unreasonable prices or on unacceptable terms. The results on our portfolio and on the New York real estate industry generally would be swift and catastrophic.

We anticipate that property insurers would have no appetite to provide terrorism coverage on well-known, marquee properties because there is a greater likelihood that they would be terrorist targets due to their prominence. So many New York City Landmarks would become uninsurable against terrorism risks, precisely because of their status as landmarks in the city that remains, according to the NYPD, the single biggest terrorist target in the United States.

An equally significant factor would be the high value of these properties. Terrorism is a low-probability but high-severity risk. Many marquee New York City properties are valued near or above $1 Billion, yet they are unlikely to be destroyed by a terrorist act. And it is this combination of low probability but high severity that makes it extremely difficult for insurance carriers to perform reliable actuarial analyses and fix premiums that any property owner would be willing to pay. It is not an accident that no viable private market for terrorism insurance has developed. There is just not enough predictability to allow insurers to voluntarily offer terrorism insurance without the federal backstop. If TRIA were to expire, we fully expect carriers to flee the terrorism market in droves, leaving property owners like Forest City "bare" (uninsured) with respect to its terrorism risks.

We simply don't have the tolerance for that level of risk. But assuming we did, our lenders would almost certainly not. Every insurance specification I have seen in any loan agreement I've reviewed since TRIA was enacted requires terrorism coverage in property insurance policies. And this makes sense when you consider what lenders have at stake. Given typical industry loan to value ratios, Lenders usually have more than twice as much money at risk in a building than the owner/developer does. And without a way to insure their investments against terrorism, it is very easy to see how lenders would just stop investing in major cities like New York, Boston, Washington and others.

The recovery in New York's real estate market has been slow, but for the first time in a long time I think we're optimistic for real growth. Nothing would halt this City's recovery faster than the expiration of

TRIA and the inevitable lender pull-back that would result. That would be a real tragedy, not only because big office and condo projects would likely be unable to find financing, but the affordable housing this City so desperately needs would be very difficult to deliver. And because so many lenders have required terrorism insurance as a condition of financing, many developers would be in default of their loan agreements if coverage were to disappear from the market.

In a city where so much of our economy depends on a robust, healthy real estate industry, we can ill afford to see this vital program expire. The results would be devastating.

But real estate development would not be the only industry hurt by TRIA's expiration, just as property insurance coverage would not be the only line of commercial insurance affected. All businesses would find it harder to invest in New York because of its value as a terrorist target, and it would be just as difficult to secure terrorism coverage for Workers' Compensation, General Liability, Excess, and Pollution Liability policies, which are all insurance lines typically carried by businesses.

I thank you for your time and your interest in this important issue. We at Forest City are truly grateful for the support you have shown for us and our industry. I would be happy to answer any questions you may have.

17th June 2013

10:30 a.m.

Tarique Nageer, Terrorism Insurance Broker

Thank you for allowing me the opportunity to present to you today regarding Resolution. No. 1806.

The September 11, 2001, terrorist attacks created a severe market shortage for terrorism insurance.

- Prior to 11th September 2001, Terrorism was included at no cost on insurance policies. Coverage was typically 'silent', i.e. not excluded.
- After 11th September 2001, Terrorism was excluded. This was primarily driven by the lack of reinsurance.
- Terrorism insurance pricing increased significantly; higher deductibles, higher rates and low limits were being offered
- Very limited number of insurance companies provided Terrorism for small limits
- In the absence of Federal risk-transfer mechanism, many States allowed insurers to exclude Terrorism on property (and casualty) policies.

The Terrorism Risk Insurance Act was signed into law on November 26, 2002. It provides a federal backstop to insurance companies for terrorism insurance claims. The Act was extended in 2005 and again in 2007 with the legislation scheduled to expire on 31st December 2014.

The shear number of iconic buildings, recognizable structures and office buildings in New York City make it a target for terrorist activity.

The recently released 2013 Terrorism Risk Insurance Report, which was a survey of nearly 2,600 companies by Marsh, identified the Northeast as having the highest terrorism insurance take-up rates on average - 77 percent of clients in the Northeast purchased terrorism insurance.

This is likely due to the concentration of population centers, perceived potential for terrorist attacks, properties perceived as potential targets for terrorism attacks, or where there have been instances of actual or foiled plots.

The demand for terrorism risk insurance remains strong and the existence of the federal program plays a major part in the availability and affordability of the coverage.

If Congress fails to extend the insurance program, it will be difficult and expensive for commercial real estate building owners, tenants and developers to obtain terrorism insurance in major cities, especially New York City.

Without terrorism insurance, banks will be less likely to extend capital with the ripple effect of slowed economic growth due to delayed construction and stalled real estate financing.

Any delay in the renewal of TRIA creates market uncertainty and leave businesses with difficult forecasting decisions.

In the absence of TRIA or a substantial change in the Act, this will likely lead to increased terrorism insurance premiums and the likelihood that the availability of terrorism coverage would limited.

Thank you.

About Marsh

Marsh, a global leader in insurance broking and risk management, teams with its clients to define, design, and deliver innovative industry-specific solutions that help them protect their future and thrive. It has approximately 26,000 colleagues who collaborate to provide advice and transactional capabilities to clients in over 100 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy, and human capital. With over 53,000 employees worldwide and annual revenue exceeding $11 billion, Marsh & McLennan Companies is also the parent company of Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; Mercer, a global leader in talent, health, retirement, and investment consulting; and Oliver Wyman, a global leader in management consulting. Follow Marsh on Twitter @Marsh_Inc.

STATEMENT

OF

WILLIS AND THE CIAB

TO

THE COMMITTEE ON STATE AND FEDERAL LEGISLATION

OF

THE NEW YORK CITY COUNCIL

Chairperson Foster and Members of the Committee, I am Alexandra Littlejohn, an Executive Vice President with Willis North America, one of the largest insurance brokers in the country. I am testifying today on behalf of Willis as well as the Council of Insurance Agents and Brokers, whose members annually place 85 percent of U.S. commercial property/casualty insurance premiums.

Willis and the CIAB wholeheartedly support an extension of the federal Terrorism Risk Insurance Act (TRIA) and your efforts to pass a "Resolution calling on the United States Congress to pass, and the President to sign, legislation that would extend the Terrorism Risk Insurance Program Reauthorization Act of 2007."

The Terrorism Risk Insurance Act was enacted to encourage insurers to return to the terrorism insurance marketplace by reducing the catastrophic potential for loss as a result of terrorist activities. By capping potential losses and by providing a backstop for catastrophic exposures, TRIA has provided a measure of stability to an unstable marketplace and has provided structure to the otherwise incalculable scope of terrorism exposure.

Originally enacted on November 26, 2002, and extended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007, it is now set to expire on December 31, 2014.

The goal of TRIA was to provide a mechanism to allow for a public – private risk-sharing of losses from an act of terrorism. For a relatively small loss, there is no federal sharing, but for larger losses, TRIA provides a risk-sharing mechanism, with a recoupment provision which ultimately permits the government to efficiently recover loss payments on a pre-agreed basis, while allowing insurers and insureds the certainty of indemnity in the short term.

It is important to recognize that Terrorism is not a peril that can be reduced or avoided by traditional loss mitigation techniques, nor is the typical methodology for determining premiums for catastrophe exposures, e.g., flood, applicable to the calculation of terrorism pricing models. The ability to accurately predict frequency of events within a specific zone is essentially impossible.

Accordingly, as underwriters of this class rely upon risk aggregation models which track inventories of insured properties within a specific zone, there can be a wide variation in the pricing models applied and the availability of coverage due solely to the concentration of risk in any one underwriter's portfolio. Metropolitan New York is typically referred to as the most highly aggregated risk area in the country (if not the world) in terms of property portfolios insured for terrorism, which, in turn, on a supply and demand model, pushes costs significantly higher than other regions in the U.S, for what would otherwise appear to be similar occupancies.

With no demonstrable expansion of this specialist insurance market, much of the existing terrorism insurance capacity has already been allocated on a medium to long term basis to existing buildings and projects under construction with little or no insurance capacity left available for new development. To compound the problem, construction costs have risen from $400/$450 Sq. Ft 5 years ago to $500/$550 Sq. Ft for new construction, further increasing the need for higher limits to insure to value and compounding the aggregation/capacity problems. Additionally, it is estimated that up to 85% of all commercial mortgages require terrorism insurance. Without adequate limits in place, projects may not be started, leading to a negative ripple effect throughout the economy.

TRIA must be reauthorized and it must be reauthorized sooner rather than later to avoid disruptions in coverage. Without the certainty of an extension of TRIPRA, we are beginning to see provisos written into new insurance contracts that limit or eliminate terrorism coverage after December 31, 2014. This will undoubtedly delay, if not scrap, major development plans, thereby jeopardizing an already fragile economic recovery.

For those who think TRIA is some sort of bail-out for the insurance carriers, I would point out that there are high retention levels for individual insurers before TRIA kicks in and that federal outlays are recouped with interest over the ensuing years. Currently, TRIA requires that private sector insurers retain all loss for certified terrorist events under $100 million. If losses exceed $100 million, any insurance company with losses will be subject to a deductible of 20 percent of its direct written premiums for the prior year. In some cases, this could result in certain insurers paying losses of $ 3 – 4 billion or more before the first dollar of government money is spent through this program.

After the 20 percent deductible, private insurers absorb 15 percent of any additional losses up to the program cap of $100 billion. In addition, the law requires that 133% of the outlays under the program be recouped through a post-event surcharge. It is critical to remember that TRIA **requires** insurers to offer terrorism coverage and without TRIA many insurers could be expected to vacate the market. This is not only true in the U.S., but throughout most western countries, where the governments have developed some form of government mechanism to assure that insurance coverage is available.

While the availability of terrorism insurance capacity has increased incrementally since 2007, there is little expectation for further growth. As available capacity will not be adequate to meet requisite coverage levels, it is evident this lack of coverage will severely limit access to the financing that is so vital to many commercial projects.

In addition, in recent testimony before Congress a witness for the Risk Insurance Management Society stated that without TRIA "… we will be unable to obtain the limits of coverage necessary to protect the properties and investors and to satisfy lenders. A more significant portion of the risk will be retained by owners, which would further impede the real estate market's financial recovery. I should also note that tenant leases now frequently require that the landlord maintain terrorism insurance and the inability to purchase the coverage could result in a default on the lease, renegotiation of terms, or loss of a tenant."

Several bills have already been introduced in the United States Congress to extend TRIA. One bill, H.R. 508, introduced by Congressman Grimm (R-NY) has 47 co-sponsors. It calls for a 5-year extension of the Act. Other bills, including H.R. 2146, introduced by Congressman Capuano (D-MA) with 23 co-sponsors, call for longer extensions. Both Congressman Grimm and Congressman Capuano are members of the House Financial Services Committee, with jurisdiction over TRIA. Since the terrorist threat persists we would urge as long an extension as is politically feasible.

Many of the reasons that caused Congress to create TRIA still exist today. Obviously, a major terrorist attack could threaten the insurance market. While modeling methods have improved over the years since September 11, 2001, terrorism risks still cannot be assessed accurately. Terrorists' methods are evolving and have also entered the cyber realm. Much is being done to identify these threats and to protect the nation from devastating attacks. However, only those in the intelligence community and the protective services know the true extent of the dangers.

TRIA has worked fairly well. Coverage has generally been available at reasonable prices. As insurance brokers, we will continue to work with our clients and their risk managers to help secure their properties and to find them the best available coverage against terrorist attacks. It has not been easy, even with TRIA. However, it would have been almost impossible without TRIA. As a result, we would reiterate our endorsement of your efforts to submit a resolution urging the Congress to extend TRIA, and to do it soon, and not wait until the expiration date is upon us.

Thank you for the opportunity to testify today on this matter of critical importance to the City and the nation's overall economy.

The Real Estate Roundtable

June 17, 2013

New York City Council
Attn: Council Members Domenic Recchia, Helen Foster and Christine Quinn
250 Broadway
New York, NY 10007

Dear Council Members Recchia, Foster and Quinn:

Thank you for acknowledging the importance of maintaining an effective federal terrorism risk insurance plan and your efforts to encourage the U.S. Congress to extend the Terrorism Risk Insurance Act (TRIA) beyond 2014. We are pleased to endorse your sponsorship of *Resolution 1806-2013* and urge the City Council to pass this resolution.

Following the tragic attacks of 9/11, reinsurers withdrew from the terrorism risk insurance market, forcing insurance carriers to exclude terrorism coverage from policies – leaving policyholders exposed; slowing economic activity and stalling construction. While TRIA was originally intended to be a temporary measure – a bridge to a time when reinsurers returned to the market place – reinsurers remain unable to accurately measure the type, frequency and potential losses due to a large-scale terror attack.

In fact, the Government Accountability Office (GAO), President's Working Group on Financial Markets and other terrorism risk observers have consistently concluded that "acts of terrorism" are uninsurable risks.[1]

At almost no cost to the taxpayer, TRIA has made it possible for businesses to purchase terrorism risk coverage for over a decade. Thanks to the fact that private capital is at risk before any taxpayer funds are advanced, and the plan's recoupment mechanism, the Congressional Budget Office scores the plan at zero.

Rather than simply shift cost onto the federal government, the plan requires insurers and policyholders to bear the first dollar loss of up to $100 million in annual claims resulting from terrorist attacks. Plus, insurers must meet a deductible of 20% of their premiums – which could reach $35.5 billion – before taxpayers are exposed. Through the plan's recoupment provision, the government is required to recoup losses up to $27.5 billion and has the discretion to recoup government payments in excess of that amount.

[1] *Terrorism Risk Insurance: Report of the President's Working Group on Financial Markets*, September 2006, p.12; *Terrorism Insurance: Measuring and Predicting Losses from Unconventional Weapons Is Difficult, but Some Industry Exposure Exists*, United States Government Accountability Office, September 2006, p. 4.

According to a RAND Corporation study[2], taxpayers are better served if TRIA remains in effect rather than being allowed to expire by Congress. TRIA allows the insurance industry to play a larger role in compensating losses caused by smaller — and presumed more likely – terrorist attacks by sharing responsibility for catastrophic terrorist attacks with the U.S. government. TRIA replaces government exposure with private capital, since insurers retain the cost of all but the largest terror incidents.

As we approach the 12th anniversary of the 9/11 attacks, the reasons for enacting a federal terrorism risk insurance partnership remain largely unchanged. Since 2002, TRIA has provided continuity to the marketplace so that policyholders – American businesses large and small -- are able to obtain the insurance coverage they need to manage terrorism risk, grow their businesses, create jobs and protect the workers they employ.

Without such a plan in place, our economy remains vulnerable to the designs of terrorists. The tragic attacks in Boston remind us that terrorism continues to pose a threat to our nation, to American businesses and to real estate. It also reminds us that this is not just a New York problem -- or a Washington or Boston problem – it is a national problem that requires a national solution.

Thank you for your leadership on this issue. We appreciate the New York City Council's attention to this important national issue and look forward to working with you to help the Congress extend TRIA beyond 2014.

Sincerely,

Jeffrey D. DeBoer
President and Chief Executive Officer

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[2] *Distribution of Losses from Large Terrorist Attacks Under the Terrorism Risk Insurance* ***Act,*** RAND Center for Terrorism Risk Management Policy, 2005.

Sean Kevelighan
Senior Vice President and
Head of Government and
Industry Affairs

ZURICH

STATEMENT BEFORE THE COMMITTEE ON STATE AND FEDERAL LEGISLATION OF THE NEW YORK CITY COUNCIL

HEARING ON RES. NO. 1806

SEAN KEVELIGHAN
SENIOR VICE PRESIDENT, HEAD OF GOVERNMENT AND INDUSTRY AFFAIRS

Chairperson Foster and Members of the Committee, I am privileged to provide this statement on behalf of Zurich North America. Zurich Insurance Group is a leading multi-line insurance provider with a global network of subsidiaries and offices around the world. Founded in 1872 and first established in the U.S. over 100 years ago, Zurich employs nearly 1,000 individuals in New York City and maintains a headquarter location at One Liberty Plaza. We are proud to be a New York domestic insurance company and the fourth-largest commercial property-casualty company in North America.

Zurich has a responsibility to help manage and mitigate risk for our customers, our company and colleagues, as well as the communities we serve. As we begin to look toward the re-authorization of the Terrorism Risk Insurance Act (TRIA), we appreciate the work of the New York City Council Committee on State and Federal Legislation to underscore the ongoing threat of terrorism and the necessary role the Federal government must play.

Zurich supports the continuation of a federal terrorism risk insurance program providing a public-private partnership to manage the financial impacts of another large-scale terrorist event. While at its core terrorism remains a national security issue, it is also a business and national economic security issue. The federal backstop provided under the terrorism insurance program continues to ensure market certainty and availability of insurance coverage to protect construction and development projects, financial institutions and numerous other enterprises within New York City. Such a mechanism ensures that our nation has the wherewithal to recover from the financial devastation caused by an attack and works as a safety net for the entire U.S. economy.

We advocate bringing together the wide range of stakeholders with a voice in the reauthorization debate, including Members of Congress, Administration officials, Representatives of State and City Governments, Business Organizations, Insurers and other relevant participants with a vested interest in finding a workable path forward.

Zurich North America

Zurich Towers
1400 American Lane
Schaumburg, Illinois
60196-1056

e-mail:
sean.kevelighan@zurichna.com

Direct Dial: 847-413-5729
Mobile: 947-212-1035

Zurich believes this is an important priority not only for New York City, but for other cities and communities across this nation. We look forward to adding our voice and global expertise to the reauthorization discussion and partnering with you and other stakeholders in the weeks and months ahead.

THE COUNCIL
THE CITY OF NEW YORK

Appearance Card

I intend to appear and speak on Int. No. ______ Res. No. ______

☐ in favor ☐ in opposition

Date: ______

(PLEASE PRINT)

Name: Congresswoman Carolyn Maloney

Address: 1651 3rd Ave, Suite 311

I represent: 12th Congressional District

Address: ______

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Name: Sylvester Giustino

Address: 11 Penn Plaza, Suite 2201

I represent: BOMA/NY

Address: 11 Penn Plaza Suite 2201

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Name: Angela Pinsky

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I represent: REBNY

Address: 570 Lexington 11215

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Name: JESSICA WALKER

Address: One Battery Park Plaza, NY NY 1000[illegible]

I represent: Partnership for New York City

Address:

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Name: Mary Ann Rothman

Address: 110 Riverside Dr NYC

I represent: Council of NY Cooperatives & Condominiums

Address: 250 W 57 St, #730 NY 10107

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Name: Alexandra Littlejohn

Address:

I represent: Willis of New York

Address: One World Financial Ctr, NY, NY

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Name: Andrew Breslau

Address:

I represent: THE ALLIANCE FOR DOWNTOWN NEW YORK

Address: 120 Broadway, NY NY

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Name: John L. Hunt

Address: c/o Forest City Ratner, 1 MetroTech Center, Bklyn, NY 11201

I represent: Forest City Ratner Companies

Address: see above

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THE CITY OF NEW YORK

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I intend to appear and speak on Int. No. ________ Res. No. 1806

☑ in favor ☐ in opposition

Date: ________

(PLEASE PRINT)

Name: TARIQUE NAGEER

Address:

I represent: MARSH

Address: 1166 Avenue of The Americas, NY NY 10036

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