

# ROLL CALL

## **Terrorism Insurance: The Time Has Passed on This Idea | Commentary**

By Mark A. Calabria – October 21, 2013

In the wake of the Sept. 11, 2001, attacks, Congress enacted the Terrorism Risk Insurance Act in 2002. I remember both well, having served as staff on the Senate Banking Committee during that time. I also remember the industry promise that TRIA would be a temporary program, not another endless piece of corporate welfare.

It's time for that promise to be honored and for TRIA to be allowed to expire.

TRIA does nothing to lower the costs of terrorism. It simply shifts the cost from property owners and insurance companies to the taxpayer. Given the fiscal mess our federal government is in, it should be abundantly clear that the private sector can far better manage this risk than could the taxpayer.

At worst, TRIA may actually increase the costs of a terrorist attack. By making available under-priced insurance, property owners and developers have a reduced incentive to construct and rehabilitate structures to better withstand a terrorist attack.

The Congressional Budget Office found that the existence of TRIA appears "to dampen the inclination of firms to relocate their operations away from high-risk areas." These increased potential property losses, due to TRIA's perverse incentives, do not account for the increased potential for loss of life from encouraging individuals to remain working or living in high-risk areas.

Insurance is fundamentally about the pooling and sharing of risk. It is not, however, the only vehicle for doing so. This is especially true in the commercial real estate market, the sector most affected by TRIA.

The most likely physical targets of TRIA will be either public buildings or trophy commercial properties. In the case of public buildings, it would be cheaper for the public to directly backstop those properties, rather than rely on insurance. In the case of private commercial properties, a Real Estate Investment Trust structure provides a ready avenue for spreading the risk of losses that may result from terrorism.

And of course, most trophy commercial properties are owned by publicly traded corporations who by their very nature spread the risk to their shareholders.

The existence of TRIA does little more than privilege some forms of risk-pooling over others. It shouldn't be the role of government to favor one industry over another.

It's occasionally argued that we need TRIA because terrorism risk is "special" in that it's often geographically concentrated, rare and not subject to the law of large numbers, and that the costs can be "extreme." None of these arguments are particularly compelling, especially when compared with natural disasters. Despite the geographic concentration of hurricanes, the private sector appears well able to provide homeowners' insurance.

In fact, natural disasters illustrate the industry's ability to manage and absorb large losses. The losses from hurricanes Katrina and Andrew, and the Northridge earthquake, were all comparable to the losses from 9/11, so there is nothing particularly special about the level of terror damage. If anything, 9/11 did less to threaten the solvency of the insurance industry than did Andrew or Katrina. And of course it should not be the role of the federal government to guarantee the solvency of private companies, whether they are in the insurance industry, the auto industry or investment banking.