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Terrorism Backstop Review In Light of Budget Woes

Burlington, VT— The U.S. Department of the Treasury is looking at the long-term availability and affordability of the federally funded terrorism risk insurance backstop, as required by law. This backstop has become a safety net backing insurers who offer this coverage against potentially catastrophic terrorism risks. Although the group may recommend a cut to some level of funding, the federal insurance backstop is expected to remain a key component of protection against terrorism risk.

Treasury will seek comments over the next 45 days and present them to the President's Working Group on Financial Markets for analysis. The working group is charged with overseeing the federal terrorism insurance backstop, first established by the Terrorism Risk Insurance Act of 2002 and extended in 2007. The current program is scheduled to expire at the end of 2014. The working group, which is chaired by the Treasury, must report to Congress later this year and again in 2013. Earlier this year, the President's budget proposal included a provision that would reduce annual funding for the backstop by 25% from \$100 billion to \$75 billion in a nod to lowering record-high federal debt. A cut of this size could affect deductibles and copays, but elimination of the program altogether is unlikely. Even with potential cuts, the administration is expected to continue support for the program. There is widespread support throughout the industry for the program and experts predict that terrorism coverage would evaporate if the backstop were severely curtailed or eliminated.

"The federal backstop is vital for insurers who offer terrorism risk insurance," says Thomas P. Stokes, Managing Principal of The Towner Management Group (NY) LLC and Consulting Practice Leader of TMG's U.S. operations. "While cuts to the backstop would impact both captive and traditional insurers, Towner Management expects the program will remain a valuable support mechanism for the industry.

"Captives that insure terrorism risk should evaluate the impact of potential changes," he continues, "while captives that don't yet insure terrorism risk should take this opportunity to reassess their coverage needs."

To learn more about this development or other captive insurance issues, contact any of the Towner Management captive professionals at the phone numbers or email addresses below.