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Captives Remain Vital Option as Working Group Confirms Value of TRIPRA

New York, NY— A recent report from the President's Working Group on Financial Markets confirms that the federal terrorism risk insurance backstop remains a vital component of adequate coverage, even as capacity in the commercial markets increased and prices declined. However, gaps still exist that captives can efficiently fill.

"Some risk managers might skim the report and get the impression that they can buy as much terrorism risk insurance as they like very inexpensively," says Thomas P. Stokes, Principal with The Towner Management Group LLC. "While commercial markets are starting to respond, risk managers need to understand that limits remain inadequate in many parts of the country and many risks simply won't be covered.

"I believe the key message in the report is that the federal backstop remains a crucial component of catastrophic terrorism risk coverage."

Stokes, who also is TMG's consulting practice leader, elaborates on these three points. "You might buy commercial coverage with a \$100 million limit, but your building, for example, may be worth a half-billion dollars," he says. "Also, commercial terrorism insurance won't cover losses due to NBCR (nuclear, biological, chemical and radioactive) events. Most experts believe these types of events are at least as likely to occur as traditional terrorism acts.

The good news is that the report clearly signals the importance of the federal backstop. "Keep in mind that the Department of Homeland Security just last week indicated that the current terrorism threat level has never been higher," Stokes continues. The nature of the threat has changed, so it is imperative to examine your coverage to ensure it is structured to meet the threats head-on."

Captives, according to Stokes, help companies cover the gap when commercial insurance limits end or they don't insure certain events and when the federal backstop, mandated by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), begins.

To learn more about how captives can work with other risk-financing alternatives to insure against terrorism-related and other types of losses, contact Tom Stokes or another TMG professional. Towner Management is a full-service captive insurance and international business entity manager with a global reach. In the U.S. and worldwide, count on TMG to provide independent service and expertise.